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This announcement and the listing document referred herein is for informational purposes only as required by the Rules Governing the Listing of Securities on the Stock Exchange and is not an offer to sell or the solicitation of an offer to buy any 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 anything herein (including the listing document) forms the basis for any contract or commitment whatsoever. 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. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about China SCE Group Holdings Limited (the “Company”) and management, as well as financial statements. No public offer of securities is to be made by the Company in the United States.

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



CHINA SCE GROUP HOLDINGS LIMITED

中駿集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1966)

US\$300,000,000 5.95% SENIOR NOTES DUE 2024
(the “Notes”, Stock Code: 40628)

PUBLICATION OF THE OFFERING MEMORANDUM

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

Please refer to the offering memorandum dated 23 March 2021 (the “**Offering Memorandum**”) appended herein in relation to the issuance of the Notes. As disclosed in the Offering Memorandum, the Notes were intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Stock Exchange on that basis. Accordingly, the Company, the subsidiary guarantors and the JV subsidiary guarantors (if any) confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

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

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

By Order of the Board
China SCE Group Holdings Limited
Wong Chiu Yeung
Chairman

Hong Kong, 30 March 2021

As at the date of this announcement, the executive Directors are Mr. Wong Chiu Yeung, Mr. Chen Yuanlai, Mr. Cheng Hiu Lok, Mr. Huang Youquan, and Mr. Wong Lun, and the independent non-executive Directors are Mr. Ting Leung Huel Stephen, Mr. Lu Hong Te and Mr. Dai Yiyi.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN THE UNITED STATES

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

The following offering memorandum is not a prospectus for the purposes of the European Union's Regulation (EU) 2017/1129 (the "EU Prospectus Regulation"). The following offering memorandum has been prepared on the basis that all offers of the securities made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Regulation from the requirement to produce a prospectus in connection with offers of the securities.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be outside the United States (as defined in Regulation S). By accepting the transmission and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are outside the United States and that the electronic mail address that you gave us and to which this transmission has been delivered is not located in the United States, (2) to the extent you purchase the securities described in this offering memorandum, you will be doing so in an offshore transaction (as defined in Regulation S), and (3) you consent to delivery of such offering memorandum and any amendments or supplements thereto by electronic transmission.

Prohibition of Sales to EEA Retail Investors — The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the "Insurance Mediation Directive"), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of Sales to UK Retail Investors — The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 of the United Kingdom, as amended (the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") — the Company 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 Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The communication of the offering memorandum and any other document or materials relating to the issue of any securities offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "Relevant Persons"). The offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the offering memorandum or any of its contents.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers (as defined below) or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in 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 Company, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Deutsche Bank AG, Singapore Branch, Guotai Junan Securities (Hong Kong) Limited, The Bank of East Asia, Limited and UBS AG Hong Kong Branch¹ (each an "Initial Purchaser" and collectively the "Initial Purchasers"), any person who controls either of them, any director, officer, employee or agent of either of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

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

¹ UBS AG incorporated in Switzerland with limited liability.



CHINA SCE GROUP HOLDINGS LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

US\$300,000,000 5.95% Senior Notes due 2024

Issue Price: 100%

China SCE Group Holdings Limited (the "Company"), incorporated in the Cayman Islands with limited liability, is offering US\$300,000,000 aggregate principal amount of 5.95% Senior Notes due 2024 (the "Notes"). The Notes will bear interest from March 29, 2021 at 5.95% per annum, payable semi-annually in arrears on March 29 and September 29 of each year, beginning September 29, 2021. The Notes will mature on September 29, 2024 if not redeemed earlier.

The Notes are senior obligations of the Company, guaranteed (the "Subsidiary Guarantees") by our existing subsidiaries (the "Subsidiary Guarantors") other than (1) those subsidiaries organized under the laws of the People's Republic of China (the "PRC") and (2) certain other subsidiaries specified in "Description of the Notes" (together, the "Non-Guarantor Subsidiaries"). Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee ("JV Subsidiary Guarantee"). We refer to the subsidiaries providing a JV Subsidiary Guarantee as "JV Subsidiary Guarantors."

At any time and from time to time on or after September 29, 2023, we may at our option redeem the Notes, in whole or in part, at a redemption price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest (if any) to (but not including) the redemption date. At any time prior to September 29, 2023, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the applicable premium set forth in this offering memorandum as of, and accrued and unpaid interest (if any) to (but not including), the redemption date. We may redeem all but not part of the Notes at the principal amount, plus accrued and unpaid interest (if any) upon certain changes in tax law. In addition, at any time and from time to time prior to September 29, 2023, we may redeem up to 35% in aggregate principal amount of the Notes with the net cash proceeds from sales of certain kinds of capital stock, at a redemption price equal to 105.95% of the principal amount of the Notes, plus accrued and unpaid interest (if any) to (but not including) the redemption date. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest (if any) to (but not including) the date of repurchase.

The Notes will (1) rank at least *pari passu* with all other unsecured, unsubordinated indebtedness of the Company (subject to any priority rights pursuant to applicable law), (2) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) are effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, and (4) are effectively subordinated to our secured obligations and secured obligations of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the assets serving as security therefor. The Notes and the Subsidiary Guarantees will be secured by first priority liens over the capital stock of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See "Risk Factors — Risks relating to the Subsidiary Guarantees, JV Subsidiary Guarantees and the Collateral."

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

Investing in the Notes involves risks. Investors should be aware that the Notes will be guaranteed by Subsidiary Guarantors which do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and that there are various other risks relating to the Notes, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Notes. See "Risk Factors" beginning on page 15 and particularly beginning on page 53 for risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees of this offering memorandum.

Application will be made to The Stock Exchange of Hong Kong Limited (the "HKSE") 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 HKSE (the "Listing Rules") (the "Professional Investors") only. This offering memorandum is for distribution to Professional Investors only.

HKSE has not reviewed the contents of this offering memorandum, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this offering memorandum to Professional Investors only have been reproduced in this offering memorandum. Listing of the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) or quality of disclosure in this offering memorandum. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

Notice to Hong Kong investors: the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) confirm that the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are intended for purchase by Professional Investors only and will be listed on the HKSE on that basis. Accordingly, the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) confirm that the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Notes are expected to be rated "BB-" by Fitch Ratings Ltd.. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC evidencing such pre-issue registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within ten working days after the issue date of the Notes.

It is expected that delivery of the Notes will be made through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"), on or about March 29, 2021 against therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

HSBC

**BofA
Securities**

**Deutsche
Bank**

**Guotai Junan
International**

**The Bank of
East Asia,
Limited**

UBS

The date of this offering memorandum is March 23, 2021

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This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ANY JOINT LEAD MANAGER APPOINTED, AND ACTING IN ITS CAPACITY AS STABILIZATION MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZATION TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZATION MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE ANY STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME. ANY STABILIZATION ACTION MUST BE CONDUCTED BY THE STABILIZATION MANAGER (OR ANY PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE INITIAL PURCHASERS, AND NOT FOR OR ON OUR BEHALF.

THIS OFFERING MEMORANDUM INCLUDES PARTICULARS GIVEN IN COMPLIANCE WITH THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE COMPANY, THE SUBSIDIARY GUARANTORS AND THE JV SUBSIDIARY GUARANTORS (IF ANY). THE COMPANY, THE SUBSIDIARY GUARANTORS AND THE JV SUBSIDIARY GUARANTORS (IF ANY) ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM 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.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. You may not reproduce or distribute this offering memorandum, in whole or in part, and you may not disclose any of the contents of this offering memorandum or use any information herein for any purpose other than considering an investment in the Notes. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. You agree to the foregoing by accepting delivery of this offering memorandum.

This offering memorandum is not a prospectus for the purposes of the European Union's Regulation (EU) 2017/1129 (the "EU Prospectus Regulation"). The following offering memorandum has been prepared on the basis that all offers of the securities made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Regulation from the requirement to produce a prospectus in connection with offers of the securities.

Prohibition of Sales to EEA Retail Investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the "Insurance Mediation Directive"), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/

2014, as amended (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance/Professional investors and ECPs only target market — Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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 MiFID II 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.

Prohibition of Sales to UK Retail Investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 (“EUWA”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 of the United Kingdom, as amended (the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The communication of the offering memorandum and any other document or materials relating to the issue of any securities offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”)), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “Relevant Persons”).

We have prepared this offering memorandum, and we are solely responsible for its contents. We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made

all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under "Transfer Restrictions."

No representation or warranty, express or implied, is made by the Initial Purchasers or any of their affiliates or advisors or the Trustee, Paying Agent, Registrar and Shared Security Trustee as to the accuracy or completeness of the information set forth herein and you should not rely on anything contained in this offering memorandum as a promise or representation by the Initial Purchasers, the Trustee, Paying Agent, Registrar and Shared Security Trustee. The Initial Purchasers, the Trustee, Paying Agent, Registrar and Shared Security Trustee have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, assume no responsibility for the contents, accuracy or completeness of any such information or for any other statement, made or purported to be made by any Initial Purchaser or on its behalf in connection with the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Restricted Subsidiaries (as defined under "Description of the Notes — Definitions"), the Group (as defined herein), the giving of the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any) or the issue and offering of the Notes. The Initial Purchasers, the Trustee, Paying Agent, Registrar and Shared Security Trustee accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this offering memorandum or any such statement.

Prospective investors in the Notes should rely only on the information contained in this offering memorandum. Neither we nor the Initial Purchasers have authorized the provision of information different from that contained in this offering memorandum, to give any information or to make any representation not contained in or not consistent with this offering memorandum or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by us or any of the Initial Purchasers. The information contained in this offering memorandum is accurate in all material respects only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any sale of the Notes. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has not been a change in our affairs and those of each of our respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof. The Initial Purchasers expressly do not undertake to review our financial condition or affairs during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

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

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

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "TRANSFER RESTRICTIONS."

Neither this offering memorandum nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by us or any of the Initial Purchasers that any recipient of this offering memorandum, or any other information supplied in connection with the offering of the Notes, should purchase the Notes. In making an investment decision, you must rely on your own independent examination of us and the terms of the offering, including the merits and risks involved. None of us, the Initial Purchasers, or any of our or their respective affiliates or representatives is or are making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

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 memorandum and must obtain any consent, approval, or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and none of us, the Initial Purchasers, the Trustee, Paying Agent, Registrar and Shared Security Trustee shall have any responsibility therefore.

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

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") — the Company 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 Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

FORWARD-LOOKING STATEMENTS

This offering memorandum includes “Forward-looking Statements.” All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are “seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our business and operating strategies and our ability to implement such strategies;
- our ability to manage our property development plans;
- the potential for future development and expansion of our business;
- the availability and costs of bank loans and other forms of financing;
- our dividend policy;
- our ability to further develop our projects as planned;
- significant delay in obtaining the occupation permits, proper legal titles or approvals for our properties under development or held for future development;
- the timely repayments by our purchasers of mortgage loans guaranteed by us;
- the performance of the obligations and undertakings of the independent contractors under various construction, building, interior decoration and installation contracts;
- the timely settlement of amounts owed to us by our debtors;
- changes to regulatory and operating conditions in and the general regulatory environment of the industry and markets in which we operate;
- the performance and future developments of the real estate market in the PRC in which we engage and may engage in property development;
- the real estate industry outlook in the PRC generally;
- general economic conditions;
- disruption caused by the COVID-19 pandemic and government measures in response to the COVID-19 pandemic;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC government and the local authorities in the regions where we operate, which affect land supply, availability and cost of financing, pre-sale, pricing and volume of our property development projects;

- changes in competitive conditions and our ability to compete under these conditions;
- capital market developments;
- our operations and business prospects;
- business opportunities that we may pursue;
- the interpretation and implementation of the existing rules and regulations relating to LAT and any future changes to LAT;
- changes in currency exchange rates, fluctuations and restrictions; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this offering memorandum. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all.

ENFORCEMENT OF CIVIL LIABILITIES

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

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

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

We have been advised by Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands Law, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any State, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given *provided* certain conditions are met. For such a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

We have been advised by our Hong Kong legal advisers, Sidley Austin, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court, and then seeking summary or default judgment based on the strength of the foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- (c) is contrary to public policy or natural justice;
- (d) is for multiple/penal damages;
- (e) is based on foreign penal, revenue or other public law;
- (f) falls within Section 3(1) of the Foreign Judgment (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong); or
- (g) is inconsistent with a prior Hong Kong judgment or foreign judgment which is entitled to recognition in Hong Kong.

Furthermore, we have been advised by Jingtian & Gongcheng Attorneys at Law, our counsel as to PRC law, that there is uncertainty as to whether the courts of the PRC would (a) recognize or enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (b) entertain original actions brought in the courts of the PRC against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which differ in certain material respects from generally accepted accounting principles (“GAAP”) in certain other countries. Unless the context otherwise requires, references to “2017”, “2018” and “2019” in this offering memorandum are to our financial years ended December 31, 2017, 2018 and 2019, respectively.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Group,” the “Company” and words of similar import, we are referring to China SCE Group Holdings Limited itself, or to China SCE Group Holdings Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or our or their respective directors, employees and advisors, and neither we, the Initial Purchasers nor our or their respective directors, employees and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB7.0651 to US\$1.00 and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7501 to US\$1.00, the exchange rates as set forth in the H.10 statistical release of the U.S. Federal Reserve Board for June 30, 2020. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the amounts referred to herein have been, could have been or could be converted into U.S. at any particular rate or at all. All amounts converted into U.S. dollars contained in this offering memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see “Exchange Rate Information.”

References to the “PRC” and “China” are to the People’s Republic of China and, for the purposes of this offering memorandum, except where the context otherwise requires, do not include Hong Kong, the Macao Special Administrative Region of the PRC or Taiwan. “PRC government” or the “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

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

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

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. All GFA information presented in this offering memorandum represent the GFA of the entire project, including those attributable to the non-controlling interests of non-wholly-owned project companies included in our consolidated financial statements.

Additional terms used in this offering memorandum are defined below.

Term	Definition
“2017 Notes”	The US\$500,000,000 5.875% Senior Notes due 2022 of the Company issued on March 10, 2017 and further issued on April 20, 2017.
“2018 HK Syndicated Loan” .	The HK\$3,172,100,000 and US\$9,000,000 dual tranche term loan facility pursuant to a facility agreement dated March 14, 2018 among the Company as borrower, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited as mandated lead arrangers and bookrunners and Hang Seng Bank Limited as agent.
“2019 HK Syndicated Loan” .	The HK\$516,000,000 and US\$180,000,000 dual tranche term loan facility pursuant to a facility agreement dated September 6, 2019 among the Company as borrower, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited as mandated lead arrangers and bookrunners and Hang Seng Bank Limited, The Bank of East Asia, Limited, CMB Wing Lung Bank Limited and Luso International Banking Ltd. and 南洋商業銀行(中國)有限公司深圳分行 (Nanyang Commercial Bank (China) Limited, Shenzhen Branch) as arrangers, and Bank of China (Hong Kong) Limited as agent.
“2020 Term Loan Facility” . . .	The term loan facility in an aggregate H.K. dollar or U.S. dollar equivalent of up to RMB400,000,000 pursuant to a facility agreement dated July 8, 2020 among, <i>inter alia</i> , Best Access International Limited, a non-wholly owned subsidiary of the Company, as borrower, and China CITIC Bank International Limited as original lender, facility agent and security agent.
“2021 HK Syndicated Loan” .	The HK\$351,000,000 and US\$342,500,000 dual tranche term loan facility pursuant to a facility agreement dated March 22, 2021 among the Company as borrower, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and Hang Seng Bank Limited, as mandated lead arrangers and bookrunners, and Bank of China (Hong Kong) Limited as agent.
“April 2018 Notes”	The US\$600,000,000 7.45% Senior Notes due 2021 of the Company issued on April 10, 2018.
“April 2019 Notes”	The US\$500,000,000 7.375% Senior Notes due 2024 of the Company issued on April 9, 2019 and further issued on January 7, 2020.

“commodity properties”	Residential properties, commercial properties and other buildings that are developed by real estate developers for the purposes of sale or lease after their completion.
“Existing Notes”	The 2017 Notes, the April 2018 Notes, the April 2019 Notes, the July 2019 Notes, the November 2020 Notes and the February 2021 Notes, collectively.
“February 2021 Notes”	The US\$350,000,000 6.0% Senior Notes due 2026 of the Company issued on February 4, 2021.
“GFA”	Gross floor area.
“January 2019 Notes”	The US\$500,000,000 8.75% Senior Notes due 2021 of the Company issued on January 15, 2019.
“July 2019 Notes”	The US\$500,000,000 7.25% Senior Notes due 2023 of the Company issued on July 19, 2019.
“IPO”	Our initial public offering on February 5, 2010.
“land grant contract”	An agreement between a real estate developer and a PRC land authority in respect of the grant of the state-owned land use right of a parcel of land to such real estate developer.
“land use right certificate”	A certificate issued by a local property and land resources bureau in the PRC with respect to land use right.
“LAT”	Land Appreciation Tax as described in “Regulation.”
“November 2020 Notes”	The US\$500,000,000 7.0% Senior Notes due 2025 of the Company issued on November 2, 2020.
“November 2020 Term Loan”	The term loan facility in an aggregate H.K. dollar or U.S. dollar equivalent of up to US\$50,000,000 pursuant to a facility agreement dated November 26, 2020 among, inter alia, Bohai International Investment Limited, a wholly owned subsidiary of the Company, as borrower, and Hang Seng Bank Limited as original lender, facility agent and security agent.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision. To understand the terms of the Notes, you should carefully read the section of this offering memorandum entitled "Description of the Notes."

OVERVIEW

We are a well-known PRC real estate developer headquartered in Shanghai with nationwide operations covering property development, property investment and property management. We were honored as one of the Best 50 Real Estate Developers of China (中國房地產開發企業50強) from 2015 to 2020, one of the Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths (中國房地產上市公司綜合實力50強) from 2015 to 2020, one of the Best 5 China Real Estate Listed Companies of Risk Management and one of Best 10 of Regional Operations of China Real Estate Developers (中國房地產開發企業區域運營10強) from 2015 to 2020 consecutively, according to China Real Estate Research Association, China Real Estate Association and China Real Estate Appraisal Centre. We were also honored as one of the Fortune China 500 (財富中國500強) by the Fortune magazine (《財富》雜誌) from 2016 to 2020 consecutively. We primarily focus on the development of high quality, mid-end to high-end residential real estate projects in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, Guangdong-Hong Kong-Macao Greater Bay Area, the West Taiwan Strait Economic Zone and Central Western Region. We have historically focused on the West Taiwan Strait Economic Zone and in recent years, expanded into first-tier and quality second-tier cities as well as strong third-tier cities in other parts of China, including Beijing, Tianjin, Shanghai and Hangzhou, and the percentage of our land bank located in the Bohai Rim Economic Zone and Yangtze River Delta Economic Zone in our total land bank continues to increase. As of June 30, 2020, approximately 6.2 million sq.m., or 18.6% of our total land bank, was located in the Bohai Rim Economic Zone; approximately 9.4 million sq.m., or 28.4% of our total land bank, was located in the Yangtze River Delta Economic Zone; approximately 6.0 million sq.m., or 18.2% of our total land bank, was located in the West Taiwan Strait Economic Zone; approximately 8.4 million sq.m., or 25.6% of our total land bank, was located in the Central Western Region; and approximately 3.0 million sq.m., or 9.2% of our total land bank, was located in the Guangdong-Hong Kong-Macao Greater Bay Area.

As of June 30, 2020, we and our joint ventures and associates had a land bank with an aggregate GFA of approximately 33.0 million sq.m., of which approximately 20.1 million sq.m. was attributable to us, comprising:

- (i) investment properties with an aggregate GFA of 1,592,865 sq.m.;
- (ii) completed properties held for sale with an aggregate GFA of 1,028,573 sq.m.;
- (iii) projects under development with an aggregate planned GFA of 9,258,253 sq.m.;
- (iv) projects held for future development with an aggregate planned GFA of 8,388,338 sq.m.; and
- (v) projects held by our JVs and Associates with an aggregate planned GFA of 12,758,698 sq.m.

In the six months ended June 30, 2020, we, together with our joint ventures and associates, acquired 10 projects in total with an aggregate above-ground GFA of approximately 3.3 million sq.m., all of which were acquired through bidding. The average land cost was approximately RMB5,853 per sq.m..

Our property development projects are generally situated in prime locations in major cities, as well as areas with natural scenic surroundings and convenient access to transportation. We believe that we have established a reputable brand for developing high quality residential properties and providing premium pre- and post-sales services to our customers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our revenue was RMB16,105.2 million, RMB17,782.9 million, RMB21,369.8 million (US\$3,024.7 million), RMB10,422.8 million and RMB15,135.2 million (US\$2,142.2 million), respectively, and our profit for the year/period was RMB3,448.6 million, RMB3,676.8 million, RMB4,023.5 million (US\$569.5 million), RMB2,194.0 million and RMB2,516.6 million (US\$356.2 million), respectively. Our shares have been listed on the HKSE since February 5, 2010 under stock code 1966.HK.

COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

- Well-known real estate developer with nationwide operations and growing presence in first-tier and quality second-tier cities as well as strong third-tier cities
- Diversified and strategically located land bank
- Commitment to quality delivery, with stringent cost control
- Well-balanced capital and financial management
- Experienced and dedicated professional management team

For more information, please see “Business — Competitive Strengths.”

BUSINESS STRATEGIES

We utilize the following key business strategies:

- Focus on first-tier and quality second-tier cities as well as strong third-tier cities in China
- Continue to expand our land bank prudently
- Enhance our brand recognition to distinguish ourselves from competitors
- Continue to focus primarily on residential property development while selectively develop and hold quality commercial properties
- Further improve our capital and financing structure

For more information, please see “Business — Business Strategies.”

RECENT DEVELOPMENTS

Facility Agreement

On July 8, 2020, a facility agreement was entered into among, *inter alia*, Best Access International Limited, a non-wholly owned subsidiary of the Company, as borrower, (the “Borrower”) and China CITIC Bank International Limited as original lender, facility agent and security agent in relation to a term loan facility in an aggregate H.K. dollar or U.S. dollar equivalent of up to RMB400,000,000 (the “2020 Term Loan Facility”). The purpose of the 2020 Term Loan Facility is to, among others, finance the repayment of shareholders’ loan owed by the Borrower’s indirect holding company. For further details, see “Description of Other Material Indebtedness.”

On November 26, 2020, a facility agreement was entered into among, *inter alia*, Bohai International Investment Limited, a wholly owned subsidiary of the Company, as borrower, (the “Borrower”) and Hang Seng Bank Limited as original lender, facility agent and security agent in relation to a term loan facility in an aggregate H.K. dollar or U.S. dollar equivalent of up to US\$50,000,000 (the “November 2020 Term Loan Facility”). The purpose of the November 2020 Term Loan Facility is to, among others, finance or partially finance the existing indebtedness of the Company and for the general corporate purpose of the Company. For further details, see “Description of Other Material Indebtedness.”

On March 22, 2021, a facility agreement was entered into among, *inter alia*, the Company as borrower (the “Borrower”), certain of our subsidiaries as original guarantors, The Hongkong and Shanghai Banking Corporation, Bank of China (Hong Kong) Limited and Hang Seng Bank Limited as mandated lead arrangers and bookrunners, and Bank of China (Hong Kong) Limited as the agent in relation to a HK\$351,000,000 and US\$342,500,000 dual tranche term loan facility with possibility of incremental facilities which shall not, at any time, when aggregated with the total original facility commitments exceed US\$450,000,000 (the “2021 HK Syndicated Loan”). The purpose of the 2021 HK Syndicated Loan is for financing our existing financial indebtedness and funding payment of any fees, costs and expenses payable by the Company and its relevant subsidiaries in connection with the facility agreement and other related documents. For further details, see “Description of Other Material Indebtedness.”

COVID-19 Pandemic

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. The COVID-19 outbreak has affected our business operation and financial condition. However, the PRC central and local governments have taken various measures to manage cases and reduce potential spread and impact of infection, and further introduced various policies to boost the economy and stimulate the local property markets. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. The outbreak is however far from over, and in different countries, is showing signs of resurgence and further waves of infections are recorded everyday. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will persist and to what extent to which we 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 our business — Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic.”

Issuance of July 2020 Domestic Bonds

In July 2020, our wholly-owned subsidiary, Xiamen Zhongjun Industrial Co., Ltd. issued domestic corporate bonds with a principal amount of RMB1,460.0 million, a coupon rate of 5.5% and a term of 4 years. For more information, please see “Description of Other Material Indebtedness — Domestic Bonds.”

Issuance of October 2020 Domestic Bonds

In October 2020, Xiamen Zhongjun Industrial Co., Ltd. issued domestic corporate bonds with a principal amount of RMB2 billion, a coupon rate of 5.5% and a term of 5 years. For more information, please see “Description of Other Material Indebtedness — Domestic Bonds.”

Issuance of November 2020 Notes

On November 2, 2020, we issued 7% senior notes due 2025 in the aggregate principal amount of US\$500,000,000. For more information, please see “Description of Other Material Indebtedness and Obligations.”

Redemption of January 2019 Notes

On November 22, 2020, we completed the redemption of all outstanding January 2019 Notes in full at their principal amount, plus accrued interest to (but not including) January 15, 2021. The January 2019 Notes were cancelled and delisted from the Stock Exchange of Hong Kong.

Repayment of Domestic Bonds

We have repaid RMB2.0 billion of the domestic corporate bond due 2020 in October 2020, and RMB1.5 billion of the domestic corporate bond due 2020 in December 2020 issued by Xiamen Zhongjun Industrial Co., Ltd., our wholly owned subsidiary.

Possible Spin-off and Separate Listing of Our Property Management Services Businesses

On January 20, 2021, we announced on the HKSE that we are considering a possible spin-off and separate listing of our commercial property management and operational services and residential property management services businesses on the main board of HKSE. The separate listing of the spin-off group on the main board of the HKSE constitutes a spin-off by our Company under Practice Note 15 to the Listing Rules. The HKSE has confirmed that we may proceed with the proposed spin-off. On January 28, 2021, the proposed spin-off entity, SCE Intelligent Commercial Management Holdings Limited (“SCE CM”), submitted the listing application form (Form A1) to the HKSE. Upon completion of the proposed spin-off and listing, the Company is expected to have an interest of not less than 50% in SCE CM and SCE CM will remain as a subsidiary of the Company. See “Risk Factors — Our business strategies, plans for expansion to new business sectors, and new products or divestiture of existing businesses may not be successful.”

Issuance of February 2021 Notes

On February 4, 2021, we issued 6% senior notes due 2026 in the aggregate principal amount of US\$350,000,000. For more information, please see “Description of Other Material Indebtedness and Obligations.”

THE OFFERING

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

Issuer	China SCE Group Holdings Limited (the “Company”).
Notes Offered	US\$300,000,000 aggregate principal amount of 5.95% Senior Notes due 2024 (the “Notes”).
Offering Price	100% of the principal amount of the Notes.
Maturity Date	September 29, 2024.
Interest	The Notes will bear interest from and including March 29, 2021 at the rate of 5.95% per annum, payable semi-annually in arrears.
Interest Payment Dates	March 29 and September 29 of each year, commencing September 29, 2021.
Ranking of the Notes	The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the Existing *Pari Passu* Secured Indebtedness and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under “The Subsidiary Guarantees” and in “Risk Factors — Risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations, if any (other than Permitted *Pari Passu* Secured Indebtedness) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, on the Original Issue Date, the Trustee, on behalf of the Holders of the Notes, will accede to the Intercreditor Agreement as described below under the caption “Description of the Notes — Security” and, subject to the limitations described in “Risk Factors — Risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis with (i) the holders of the Existing *Pari Passu* Secured Indebtedness and (ii) any holders of other Permitted *Pari Passu* Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company and the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

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

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

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Affluent Way International Limited, Ally Health Investments Limited, Bohai International Investment Limited, Bonder Global Investment Limited, Dragon Tale Investments Limited, Flash Ruby International Limited, Harbour Full Investments Limited, Max Fresh Investments Limited, Max Gain Investments Limited, New Bright Construction & Landscape Limited, New Sky Investments Limited, Onwealth Investments Limited, Precise Profit Investments Limited, Royal Dragon International Advertising Limited, Sea Base Investment Limited, Sourceup International Limited, South China Group (H.K.) Limited, South China Property International Limited, Star Sun Investments Limited, Sunny Fond Investment Limited, Sunsonic Investments Limited, Wealth Grow Investments Limited. These Subsidiary Guarantors consist of all of the Company’s Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (defined below). The Subsidiary Guarantors are holding companies that do not have significant operations.

None of the existing Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future and no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future (together, the “PRC Restricted Subsidiaries”). Other than the initial Subsidiary Guarantors, none of the Company’s other Restricted Subsidiaries organized outside of the PRC (the “Existing Offshore Non-Guarantor Subsidiaries”) will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date. None of the Exempted Subsidiaries (as long as they continue to be Exempted Subsidiaries) will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee on the Original Issue Date or at any time in the future.

In addition, the Company may designate any Offshore Subsidiary (other than Exempted Subsidiaries and Listed Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary (each, a “Designated Offshore Non-Guarantor Subsidiary” and, together with the Existing Offshore Non-Guarantor Subsidiaries, the “Offshore Non-Guarantor Subsidiaries”), subject to the limitations described below under “Offshore Non-Guarantor Subsidiaries.” The Offshore Non-Guarantor Subsidiaries, together with the PRC Restricted Subsidiaries, the Exempted Subsidiaries and the Listed Subsidiaries, are referred to as the “Non-Guarantor Subsidiaries.”

See “Risk Factors — Risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — Our initial Subsidiary Guarantors do not currently have significant operations.”

Any future Restricted Subsidiary (other than any Non-Guarantor Subsidiary) will provide a guarantee of the Notes promptly and in any event within 30 days of becoming a Restricted Subsidiary.

Ranking of Subsidiary
Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets (other than the Collateral) serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with the Existing *Pari Passu* Secured Indebtedness and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Subject to the limitations described in “Risk Factors — Risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest on the Collateral (subject to any Permitted Liens and shared *pari passu* with the (i) the holders of the Existing *Pari Passu* Secured Indebtedness and (ii) any holders of other Permitted *Pari Passu* Secured Indebtedness) pledged by such Subsidiary Guarantor Pledgor, as described below under “Description of the Notes — Security”; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Ranking of JV Subsidiary Guarantees

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

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

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

Offshore Non-Guarantor
Subsidiaries

An Offshore Subsidiary that is a Restricted Subsidiary (other than Exempted Subsidiaries and Listed Subsidiaries) need not provide a Subsidiary Guarantee or JV Subsidiary Guarantee if it is designated by the Board of Directors as a Designated Offshore Non-Guarantor Subsidiary. The Board of Directors may designate any Offshore Subsidiary to be a Designated Offshore Non-Guarantor Subsidiary if:

- (1) at any time of determination, the Company and its Restricted Subsidiaries' proportionate interest in the total consolidated assets of all Offshore Non-Guarantor Subsidiaries would not exceed 25.0% of Total Assets; and
- (2) such designation would not cause a Default.

Security.

The Company has pledged or extended the benefit of the security interest over, or caused the initial Subsidiary Guarantor Pledgors to pledge or so extend, as the case may be, to the Shared Security Trustee, the Capital Stock of all of the initial Subsidiary Guarantors (subject to Permitted Liens and the Intercreditor Agreement) (collectively, the "Collateral") in order to secure the obligations of the Company and such Subsidiary Guarantor Pledgors under the Existing Notes and the related subsidiary guarantees, the Notes and the Subsidiary Guarantees, the 2018 HK Syndicated Loan, the 2019 HK Syndicated Loan, the 2021 HK Syndicated Loan and other Permitted Pari Passu Secured Indebtedness.

The Collateral will be shared on a *pari passu* basis by the Holders of the Existing *Pari Passu* Secured Indebtedness and the holders of any Permitted *Pari Passu* Secured Indebtedness pursuant to the Intercreditor Agreement.

If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will pledge the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Shared Security Trustee.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged as Collateral.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. See "Description of the Notes — Security."

Intercreditor Agreement The Company, the initial Subsidiary Guarantor Pledgors and the Shared Security Trustee, among others, entered into an intercreditor agreement dated January 14, 2011 (to which DB Trustees (Hong Kong) Limited as trustee with respect to the 2017 Notes acceded on March 10, 2017, with respect to the April 2018 Notes acceded on April 17, 2018, with respect to the April 2019 Notes acceded on April 9, 2019, with respect to the July 2019 Notes acceded on July 19, 2019, with respect to the November 2020 Notes acceded on November 2, 2020 and with respect to the February 2021 Notes acceded on February 4, 2021 and Hang Seng Bank Limited as agent on behalf of the lenders under the 2018 HK Syndicated Loan acceded on March 14, 2018, Bank of China (Hong Kong) Limited as agent on behalf of the lenders under the 2019 HK Syndicated Loan acceded on September 6, 2019 and Bank of China (Hong Kong) Limited as agent on behalf of the lenders under the 2021 HK Syndicated Loan acceded on March 22, 2021; as so amended and supplemented from time to time, the “Intercreditor Agreement”). This agreement provides that the security interests created by the Collateral will be shared on a *pari passu* basis among, (i) the holders of the Existing *Pari Passu* Secured Indebtedness, (ii) the holders of the Notes and (iii) any other holders of Permitted *Pari Passu* Secured Indebtedness.

Use of Proceeds We intend to use the net proceeds from this offering mainly for refinancing certain of our existing offshore indebtedness, which will become due within one year.

Optional Redemption At any time and from time to time on or after September 29, 2023, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to September 29, 2023, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to September 29, 2023, the Company may redeem up to 35% in aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 105.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% in aggregate principal amount of the Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

Repurchase of Notes Upon
a Change of Control
Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101.0% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

Redemption for Taxation
Reasons

Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor (if any) would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws. See "Description of the Notes — Redemption for Taxation Reasons."

Covenants

The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things:

- incur additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of the Company or any Subsidiary Guarantor;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with stakeholders or affiliates; and
- effect a consolidation or merger.

	These covenants are subject to a number of important qualifications and exceptions described in “Description of the Notes — Certain Covenants.”
Transfer Restrictions	The Notes, the Subsidiary Guarantees under the Notes and the JV Subsidiary Guarantees under the Notes (if any) will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through the records maintained by Euroclear and Clearstream.
Book-entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “Description of the Notes — Book-entry; delivery and form.”
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about March 29, 2021, which the Company expects will be the fourth business day following the date of this offering memorandum referred to as “T+4” You should note that initial trading of the Notes may be affected by the “T+4” settlement. See “Plan of Distribution.”
Trustee	DB Trustees (Hong Kong) Limited
Paying Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch
Registrar	Deutsche Bank AG, Hong Kong Branch
Shared Security Trustee	Deutsche Bank Trust Company Americas
Listing and Trading	Application will be made to HKSE for the listing of the Notes by way of debt issues to Professional Investors only as described in this offering memorandum.
Ratings	We have been assigned a long-term corporate rating of “B+” by Standard & Poor’s Rating Services, a rating of “B1” by Moody’s Investors Service and a rating of “BB-” by Fitch Ratings Ltd. The Notes are expected to be rated “BB-” by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Security Codes	ISIN	Common Code
	XS2316077572	231607757
Governing Law	The Notes, the Subsidiary Guarantees and the Indenture will be governed by and construed in accordance with the laws of the State of New York. The Intercreditor Agreement is governed by and is to be construed in accordance with the laws of Hong Kong.	
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”	

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables present our summary consolidated financial and other data. The summary consolidated financial information and other data as of and for each of the fiscal years ended December 31, 2017, 2018 and 2019 (except for EBITDA data) are derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The summary consolidated financial information and other data as of and for the six months ended June 30, 2019 and 2020 (except for EBITDA data) are derived from our unaudited consolidated financial statements included elsewhere in this offering memorandum. Our unaudited consolidated financial statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. Such unaudited consolidated financial statements should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending December 31, 2020.

The financial information has been prepared and presented in accordance with HKFRS, which differ in certain material respects from GAAP in certain other countries. The summary financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial information and the related notes included elsewhere in this offering memorandum.

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

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019	US\$'000	2019	2020	2020
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Revenue	16,105,245	17,782,886	21,369,802	3,024,699	10,422,829	15,135,207	2,142,250
Cost of sales	(10,620,061)	(11,636,290)	(15,477,931)	(2,190,759)	(7,412,249)	(10,910,258)	(1,544,247)
Gross profit	5,485,184	6,146,596	5,891,871	833,940	3,010,580	4,224,949	598,003
Other income and gains	122,812	386,637	1,155,838	163,598	759,796	624,719	88,423
Changes in fair value of investment properties, net ⁽¹⁾	1,262,744	1,082,540	1,404,861	198,845	732,250	462,241	65,426
Selling and marketing expenses	(530,538)	(398,421)	(516,031)	(73,039)	(231,294)	(311,609)	(44,105)
Administrative expenses	(963,431)	(1,298,702)	(1,616,310)	(228,774)	(628,687)	(1,029,044)	(145,652)
Other expenses	(332,561)	—	(92,243)	(13,056)	—	(156,174)	(22,105)
Finance costs	(392,048)	(401,686)	(528,142)	(74,754)	(266,873)	(248,720)	(35,204)
Share of profits and losses of:							
Joint ventures	814,542	513,275	181,599	25,704	(117,468)	16,964	2,401
Associates	(6,062)	22,217	(27,168)	(3,845)	(16,668)	(23,490)	(3,325)
Profit before tax	5,460,642	6,052,456	5,854,275	828,619	3,241,636	3,559,836	503,862
Income tax expense	(2,012,091)	(2,375,633)	(1,830,809)	(259,134)	(1,047,616)	(1,043,197)	(147,655)
Profit for the year/period	3,448,551	3,676,823	4,023,466	569,485	2,194,020	2,516,639	356,207
Other comprehensive income/(loss):							
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:							
Share of other comprehensive income/(loss) of joint ventures	46,017	(13,837)	(97)	(14)	(53)	(3,596)	(509)
Share of other comprehensive income/(loss) of associates	157	(28)	8	1	—	(10)	(1)
Exchange differences on translation of foreign operations	578,541	(486,437)	(307,848)	(43,573)	(52,073)	(405,665)	(57,418)
Release of other reserves upon deemed acquisition of subsidiaries	—	40,539	—	—	—	—	—
Available-for-sale investments:							
Change in fair value	52,051	—	—	—	—	—	—
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	676,766	(459,763)	(307,937)	(43,586)	(52,126)	(409,271)	(57,928)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:							
Gain on property revaluation	82,872	—	—	—	—	—	—
Other comprehensive income/(loss) for the year/period	759,638	(459,763)	(307,937)	(43,586)	(52,126)	(409,271)	(57,928)
Total comprehensive income for the year/period	4,208,189	3,217,060	3,715,529	525,899	2,141,894	2,107,368	298,279
Profit attributable to:							
Owners of the parent	2,840,035	3,385,284	3,510,045	496,815	1,916,809	2,114,397	299,273
Holders of perpetual capital instruments	51,975	58,363	35,408	5,012	31,850	—	—
Non-controlling interests	556,541	233,176	478,013	67,658	245,361	402,242	56,934
	3,448,551	3,676,823	4,023,466	569,485	2,194,020	2,516,639	356,207
Total comprehensive income attributable to:							
Owners of the parent	3,516,512	3,019,205	3,229,686	457,132	1,866,493	1,751,996	247,979
Holders of perpetual capital instruments	51,975	58,363	35,408	5,012	31,850	—	—
Non-controlling interests	639,702	139,492	450,435	63,755	243,551	355,372	50,300
	4,208,189	3,217,060	3,715,529	525,899	2,141,894	2,107,368	298,279
Other financial data							
EBITDA ⁽²⁾	5,353,332	6,337,768	5,956,534	843,093	3,582,285	3,820,649	540,778
EBITDA Margin ⁽³⁾	33.2%	35.6%	27.9%	27.9%	34.4%	25.2%	25.2%

Notes:

- (1) For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded changes in fair value of our investment properties. See "Risk Factors — Risks relating to our business — Our profitability may fluctuate substantially due to the periodic reassessment of fair value gains or losses on our investment properties."
- (2) EBITDA consists of profit for the year/period plus capitalized borrowing costs included in cost of sales, finance costs, income tax expense, depreciation, amortization, premium paid on early redemption of senior notes, write down to net realizable value of completed properties held for sale, net (gain)/loss on disposal of investment properties, equity-settled share option expenses, dividend in cash received from joint ventures and associates, provision of major overhauls, net fair value (gain)/loss on financial assets at fair value through profit or loss, impairment of investment in associates, net (gain)/loss on disposal of subsidiaries and gain on disposal of a joint venture and minus positive changes in fair value of investment properties, fair value (gain)/loss of derivative financial instruments — transactions not qualifying as hedges, share of profits and losses of joint ventures and associates, net gain on disposal of items of property and equipment and net foreign exchange differences. EBITDA is not a standard measure under GAAP in certain other countries or 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, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our net profit under HKFRS to our definition of EBITDA. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (3) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statements of Financial Position Data

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
ASSETS						
Current assets	41,588,520	62,213,561	96,743,594	13,693,167	107,153,955	15,166,658
Non-current assets	24,586,488	39,277,214	52,638,460	7,450,490	54,428,340	7,703,831
Total assets	<u>66,175,008</u>	<u>101,490,775</u>	<u>149,382,054</u>	<u>21,143,657</u>	<u>161,582,295</u>	<u>22,870,489</u>
LIABILITIES AND EQUITY						
Current liabilities	34,638,461	54,226,395	85,048,704	12,037,863	102,362,800	14,488,514
Non-current liabilities	14,978,677	25,124,973	34,047,163	4,819,063	29,147,846	4,125,610
Total liabilities	<u>49,617,138</u>	<u>79,351,368</u>	<u>119,095,867</u>	<u>16,856,926</u>	<u>131,510,646</u>	<u>18,614,124</u>
Attributable to owners of the parent	12,458,126	15,482,186	17,579,010	2,488,147	18,558,928	2,626,845
Attributable to holders of perpetual capital instruments	700,000	700,000	—	—	—	—
Attributable to non-controlling interests	3,399,744	5,957,221	12,707,177	1,798,584	11,512,721	1,629,520
Total equity	<u>16,557,870</u>	<u>22,139,407</u>	<u>30,286,187</u>	<u>4,286,731</u>	<u>30,071,649</u>	<u>4,256,365</u>

RISK FACTORS

You should carefully consider the following risk factors, together with all other information contained in this offering memorandum, before purchasing the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business is heavily dependent on the performance of the real estate market in the PRC

We are heavily dependent on the performance of the real estate markets in the PRC, particularly in the cities where our property projects are located. We operate in the West Taiwan Strait Economic Zone, Bohai Rim Economic Zone, Yangtze River Delta Economic Zone, Guangdong-Hong Kong-Macao Greater Bay Area and Central Western Region and have historically focused on the West Taiwan Strait Economic Zone. In recent years, we have expanded into first-tier and quality second-tier cities as well as strong third-tier cities, including Beijing, Tianjin, Shanghai and Hangzhou, and the percentage of our land bank located in the Bohai Rim Economic Zone and Yangtze River Delta Economic Zone in our total land bank continues to increase. As of June 30, 2020, 18.6% of our land bank was located in the Bohai Rim Economic Zone, 28.4% of our land bank was located in the Yangtze River Delta Economic Zone, 18.2% of our land bank was located in the West Taiwan Strait Economic Zone, 25.6% of our land bank was located in the Central Western Region and 9.2% of our land bank was located in the Guangdong-Hong Kong-Macao Greater Bay Area. We plan to continue to expand into the Bohai Rim Economic Zone. We are seeking to further expand our operations in first-tier and quality second-tier cities as well as strong third- and fourth-tier cities nationwide. Our financial condition, results of operations and profitability may be materially and adversely affected by the performance of the real estate market in the PRC, particularly in the cities where our property projects are located. Policies, measures and regulations that have been introduced and may be introduced by the PRC government may lead to changes in market conditions, including price instability and an imbalance between the supply of, and demand for, properties in the PRC. We cannot assure you that significant declines in both demand and price will not take place in the real estate markets of the PRC in the future. Demand for properties in the PRC, particularly in the first-tier and quality second-tier cities which we operate in or plan to expand into, has grown in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in real estate prices. In addition, demand for properties has been affected and will continue to be affected by the macro-economic control measures implemented by the PRC government from time to time. In the past few years, the PRC government has announced a series of measures designed to stabilize the development of the real estate market, to a more sustainable level. For a detailed discussion of policies or other government measures that may affect our business, see “— Risks relating to the real estate sector in the PRC — The measures adopted from time to time by the PRC government to regulate the PRC real estate market could slow the industry’s rate of growth or cause the real estate market to decline.” We cannot assure you that there will not be any over-supply of properties in the cities or regions where we have property projects. Any such over-supply or adverse developments in national and local economic conditions, employment levels, job growth, consumer confidence, interest rates and population growth in the PRC, particularly in the regions where our projects are located, may reduce demand and depress prices for our properties and have a material adverse effect on our business, financial condition and results of operations. Furthermore, we cannot assure you that the PRC government will not implement additional measures to restrict the growth or curb the overheating of the PRC real estate market, or that there will not be material adverse changes in the PRC economy and the PRC real estate market as a result of such policies, measures and/or regulations. Any such changes could have a material adverse effect on our business, financial condition and results of operations.

We face intense competition from other real estate developers

In recent years, an increasing number of real estate developers, including a number of leading Hong Kong and foreign real estate developers, have entered the PRC property development market. Some of such developers may have better track records, greater financial, land or other resources, broader name recognition or greater economies of scale than we do.

Enhanced competition among real estate developers may result in increases in costs for land acquisition, financing, raw materials, construction and skilled management and labor. It may also result in an oversupply of properties, decreases in real estate prices, the inability to sell such properties or a more restrictive approach to approval of new property developments by PRC authorities. The occurrence of any of such events may adversely affect our business, financial position and results of operations. If we cannot compete effectively against our competitors, our business, financial position and results of operations may be materially and adversely affected.

We may not be able to obtain adequate funding for our land acquisitions and property developments

Our business is capital intensive. We generally fund our property development projects through bank and other borrowings, pre-sale proceeds of our properties and capital market financings. We have also entered into trust financing arrangements and issued perpetual capital instruments for funding requirements. There can be no assurance that we will always have sufficient funds available, or available on acceptable terms, or at all, to fund our current and future land acquisitions and property developments.

Our ability to arrange adequate financing for our property developments on acceptable terms may depend on a number of factors, including general economic conditions, our financial strength and performance, the availability of credit from financial institutions, the value of security provided and monetary policies in the PRC.

The PRC government has in the past adopted a number of policies to further tighten lending to real estate developers, which, among other things:

- prohibit PRC commercial banks from extending loans to real estate developers to finance land premiums;
- restrict PRC commercial banks from extending loans to develop luxury residential properties;
- restrict the grant or extension of revolving credit facilities to real estate developers that hold a significant amount of idle land and vacant commodity properties;
- prohibit commercial banks from accepting properties that have been vacant for more than three years as collateral for mortgage loans;
- prohibit property developers from using borrowings obtained from any local banks to fund property developments outside that local region; and
- restrict the level of debt financing for real estate projects.

For more information regarding such policies, please see “Regulation — Legal supervision relating to real estate sector in the PRC.”

In addition, the People’s Bank of China (“PBOC”) has adjusted the deposit reserve ratio for commercial banks several times in the past few years. Increases in the deposit reserve ratio for commercial banks may limit the amount of funds that they may lend, and may thereby

adversely affect our ability to obtain financing or renew existing credit facilities. More recently, there were reports that the PRC government may start to restrict financing available to property developers by reference to their leverage ratios such as gearing ratio.

Proceeds from pre-sales of our properties also serve as an important source of financing for our property developments. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence pre-sales of the relevant properties and must use pre-sale proceeds for the sole purpose of financing the property development. Moreover, on September 21, 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Relevant Opinions on Providing the Pre-sale Permit for Commodity Houses” (《關於請提供商品房預售許可有關意見的緊急通知》), asking for opinions on the cancellation of the pre-sale system of commodity residential properties. We cannot assure you that the PRC government will not implement further restrictions on property pre-sales, such as imposing additional conditions for obtaining pre-sale permits or imposing further restrictions on the use of pre-sale proceeds. If our pre-sale activities are significantly limited as a result of changes in the relevant PRC laws and regulations, the occurrence of a global economic downturn, or a significant economic slowdown in China generally or in the cities where we operate, our cash flow position and ability to service our indebtedness may be materially and adversely affected. If we do not have sufficient cash flow from pre-sale to fund our future liquidity, pay our trade and bills payables and repay the outstanding debt obligations when they become due, we may need to significantly increase external borrowings or secure other external financing. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. In response to the COVID-19 pandemic, governments across the world have imposed travel restrictions and/or lockdown in order to contain the outbreak. There is no assurance that more countries will not tighten travel restrictions or lockdowns in response to the pandemic or that the current containment measures will be effective in halting the pandemic.

The ongoing pandemic and containment measures may adversely and materially affect the manufacturing, exports and imports and consumption of goods and services globally. The Caixin/Markit Manufacturing Purchasing Managers’ Index (“PMI”) recorded a reading of 40.3 in February 2020, indicating that China’s factory activity contracted in that month. Further, the Caixin/Markit Service PMI also indicated that services sectors contracted in China in February 2020. According to IHS Markit, the services sector in the U.S. also contracted in February 2020. There is no assurance that manufacturing and services sectors will not contract in other countries. The development of pandemic may adversely and materially affect economic growth globally due to reduce in demand and supply. On March 2, 2020, the Organization for Economic Cooperation and Development reduced 2020 GDP growth projects for almost all economies. Further, although China’s economic environment is returning to normal, with GDP in the first half of 2020 representing only a slight decrease as compared to that in the first half of 2019, the pandemic may adversely and materially affect the stability of global financial markets. On March 9, 12 and 16, trading on the New York Stock Exchange were halted for 15 minutes because S&P 500 trading price reached 7% below prior day’s S&P 500 closing price. The unfolding pandemic may significantly reduce global market liquidity and depress economic activities.

Several cities in China where we have land bank and operations had imposed travel restrictions in an effort to curb the spread of the highly infectious coronavirus. 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 may be adversely affected. As a result, 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 and/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/or maintain daily operations may be adversely affected if the outbreak continues or further deteriorates. 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. 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. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. The outbreak is however far from over, and in different countries, is showing signs of resurgence and further waves of infections are recorded everyday. There can be no assurance that any recovery momentum will continue in the future.

Our business depends on our ability to identify and acquire suitable sites with long-term appreciation potential for property development

We derive the majority of our revenue from the sale of properties that we have developed. This revenue stream is dependent on our ability to identify and capitalize on land acquisition opportunities with quality development potential and replenish our land reserves. We cannot assure you that the parcels of land we have acquired will appreciate in value in the future or that we will continue to be able to identify or capitalize on similar land acquisition opportunities or that we will be able to successfully acquire attractive land sites. In addition, the PRC government controls the availability of land in China. As a result, the PRC government's policies have a direct impact on our ability to acquire land use right and our costs of land acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which real estate developers may obtain land and to promote the development of more affordable housing. The PRC government also controls land supply through zoning, land usage regulations and other measures. All these measures further intensify the competition for land in China among real estate developers and may limit our ability to acquire suitable land for our development or increase land acquisition costs significantly. These policy initiatives and other measures adopted by the PRC government from time to time may limit our ability to identify, acquire and capitalize on sufficient attractive land sites for our land reserves and could result in uncertainties in our future development costs and schedules, which in turn could have a material adverse effect on our future growth prospects, profitability and profit margins.

We may not be able to obtain land use right certificates with respect to certain parcels of land in which we currently have interests

We hold certain parcels of land for development for which we have not yet obtained the land use right certificates from the PRC government. After signing the framework agreement, in order to obtain the land use right certificate with respect to these parcels of land, we are required by PRC laws and regulations to go through a process which may involve competitive bidding, public auction or listing-for-sale, and, if successful, enter into a land grant contract and pay the land premium. If we fail to obtain the land use right certificates with respect to such parcels of land in a timely manner, or at all, or if we are required to pay higher land premium to secure the land use right certificates or fail to recover the costs that we have incurred in connection with performing our obligations under such framework agreements, our business, financial condition and results of operations may be materially and adversely affected.

Our land may be forfeited to the PRC government if we fail to comply with the terms of the land grant contracts

Under PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, designated use of land, time for commencement and completion of development of the land), the relevant government authorities may issue a warning to, or impose a penalty on, the developer, or require the developer to forfeit the land. Under current PRC laws and regulations, subject to the approval of the local government at the same level, if a property developer fails to commence development within one year after the expiration date as stipulated in the relevant land grant contract, the relevant land bureau may impose an idle land fee. If a property developer fails to commence development with two years after the expiration date as stipulated in the relevant land grant contract, the relevant PRC land bureau may forfeit the land upon the approval of the competent people's governments. We cannot assure you that circumstances leading to forfeiture of land or payment of idle land fees will not arise in the future. If we are required to forfeit land, to pay idle land fees or even to pay additional land premium, we will not be able to continue our property development on the forfeited land or recover the costs incurred for the initial acquisition of the forfeited land or recover development and other costs incurred up to the date of forfeiture, and our business, financial condition and results of operations may be adversely affected.

Our results of operations may fluctuate from period to period, which makes it difficult to predict our future performance

Substantially all of our revenue is derived from the sale of our self- or jointly-developed residential and commercial properties. Our results of operations may fluctuate in the future due to a combination of factors, including the overall development schedule of our property development projects, the level of acceptance of our properties by prospective customers, the proposed timing for completion and sale of our developed properties, our revenue recognition policies, land acquisition costs and price volatility in construction-related and development expenses, and extraordinary and non-recurring events. Most of our property development projects require several years to complete and must be undertaken in phases. Selling prices of developed properties are often higher closer to completion, due in part to the more established community available to prospective purchasers. Furthermore, in 2017, according to our accounting policy for revenue recognition, we recognize revenue from the sale of properties only upon the delivery of completed properties to purchasers. In 2018, 2019 and the six months ended June 30, 2020, revenue is recognized when the purchaser obtains the physical possession or the legal title of the completed property and we have the present right to payment and that the collection of the consideration is probable. A time gap ranging from several months to several years may pass between the date on which we commence pre-sales and the date on which completed properties are delivered to purchasers. Accordingly, our results of operations may vary significantly from period to period depending, in part, on the GFA sold and the timetable for the completion of pre-sold properties. Historically, periods in which we completed more GFA have often generated a higher level of revenue. Periods in which we pre-sell a considerable amount of aggregate GFA, however, may not necessarily generate a higher level of revenue if such pre-sold properties are not completed within the same period. Our results of operations are also affected by the limitation that during any particular period of time, we can only undertake a limited number of projects due to the substantial capital requirements for land acquisitions and construction costs and the limited supply of land. Our ability to complete projects may also be affected by seasonal factors, such as heavy winter rainfall and typhoons, which could hinder the construction, and in turn, the completion of our property development projects. Our revenue and profits, recognized upon the delivery of properties, may also be affected by such seasonal effects. Furthermore, our results of operations may be subject to extraordinary and non-recurring events. For example, our share of profits of joint ventures and associates decreased from RMB808.5 million in 2017 to RMB535.5 million in 2018, and further decreased significantly to RMB154.4 million (US\$21.9 million) in 2019. The decrease in the amount was mainly attributable to the increase of operating expenses of projects under development of joint ventures and associates and the decrease in the fair value gains of investment properties of joint ventures. Our share of losses of joint ventures and associates was RMB6.5 million (US\$0.9 million) in the six months ended June 30, 2020, as compared to share of losses of joint ventures and associates of RMB134.1 million in the six months ended June 30, 2019. We cannot assure you that project delivery of similar profitability level will be achieved in the future or that the fair value of our investment properties will continue to rise. Any such contribution to our profits may not reoccur in the

future, which could result in fluctuations in our results of operations. See also “— Our profitability may fluctuate substantially due to the periodic reassessment of fair value gains or losses on our investment properties.”

Our profit margin varies with each property development and changes in product mix, and we may not be able to sustain our existing profit margin

Many factors, for example, our (i) product mix, (ii) selling price and (iii) cost of development, may affect our gross profit margin, or gross profit as a percentage of total revenue. The prices and gross profit margins of our products vary by location, classification and the end use of certain facilities on the properties that we develop. Our product mix varies from period to period due to a number of factors, including project locations, land cost, market conditions and our development planning. We cannot assure you that our profit margin would not further decrease in the future or that we can always maintain a healthy profit margin. If we are unable to maintain a healthy profit margin, our profitability may be materially and adversely affected.

Our business may be adversely affected by future increases in interest rates

We rely on borrowing to finance a significant part of our project developments. Bank borrowings are one of the most important sources of funding for our property developments. As our bank loans are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark lending rates published by PBOC, which have fluctuated significantly in recent years. The PBOC benchmark one-year lending rate in the PRC as of December 31, 2017 and 2018 was 4.35% and started to decrease in the second half of 2019. The PBOC benchmark lending rates decreased to 3.85% on April 20 and remained unchanged as of June 30, 2020. Increases in the PBOC benchmark lending rates may lead to higher lending rates for our bank loans and increase our financing costs. Furthermore, any increases in interest rates will also make mortgage financing more expensive for potential purchasers of our properties, which may adversely affect our ability to generate cash through pre-sales and affect our sales revenue. In addition, we utilize trust financings as our alternative for bank loans, primarily because compared with bank loans, trust financings offer greater flexibility. Trust financing institutions do not usually link their interest rates to PBOC benchmark lending rates. They typically charge higher lending rates than commercial banks. Increases in our finance costs may adversely affect our business, financial condition and results of operations.

We may not be able to complete our development projects on time, within budget or at all

Property development projects require substantial capital expenditure prior to and during the construction period. It may take more than a year from the commencement of construction before a project generates positive cash flows through pre-sales or sales of properties. The progress and costs of a property development project may be materially and adversely affected by many factors, including:

- delays in obtaining necessary licences, permits or approvals from PRC government agencies or authorities;
- changes in real estate market conditions;
- changes in PRC government policies, regulations and/or measures;
- relocation of existing residents and/or demolition of existing structures;
- shortages or increased costs of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural disasters or catastrophes; and

- adverse weather conditions.

Construction delays or failure to complete the construction of a property development project according to its planned specifications, schedule or budget as a result of the above or any other factors may have a material adverse effect on our business, financial condition and results of operations and may result in reputational damage to us. We cannot assure you that we will not experience any significant delays in completion or delivery of any of our property development projects or that we will not be subject to any liabilities for any such delays.

We may not be successful in expanding into geographic areas where we have not historically operated

As of June 30, 2020, we have focused on the development of properties in first, second and strong third-tier cities in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area, the West Taiwan Strait Economic Zone and Central Western Region. In the six months ended June 30, 2020, we have expanded into additional cities including Weifang, Zhangjiagang, Fuzhou, Jieyang, Shaoguan, Xiangtan and Xuchang. Markets in other regions may differ from markets in which we currently have operations in terms of the level of economic development, real estate market trends and regulatory practices. In addition, as we enter new markets, we may not have the same level of familiarity with local contractors, business practices, customs and customer tastes, behavior and preferences and other market dynamics as compared to the areas in which we currently have operations. Therefore, we may not be able to successfully leverage our experience in the areas in which we currently have operations in other markets. Our expansion, and the need to integrate operations arising from our expansion into new markets, may place a significant strain on our managerial, operational and financial resources and may further increase our financing requirements. In addition, we may encounter intense competition from other real estate developers with more experience or better established presences in those areas. Any failure to leverage our experience or to understand the local real estate markets that we target for expansion may have a material adverse effect on our business, financial condition and results of operations. Furthermore, if we are unsuccessful in our strategy to expand beyond the areas in which we currently have operations, our development and growth prospects may be adversely affected.

Our business strategies, plans for expansion to new business sectors, and new products or divestiture of existing businesses may not be successful

We have historically focused on residential properties. We have begun to diversify our project portfolio by expanding into commercial real estate in the PRC. For further details of our expansion plan, please see “Business — Business Strategies — Continue to focus primarily on residential property development while selectively develop and hold quality commercial properties.” There can be no assurance that we will be able to develop new businesses successfully or at all, and we may not be able to leverage our experience in the residential properties sector into new business areas. We routinely evaluate potential acquisition and divestiture transactions and may from time to time consider to divest or partially monetize parts of our business, including any of our ancillary or complementary businesses, such divestitures or monetization may be in the form of separate listings of parts of our business or through strategic transactions. Any such transaction could happen at any time, could be material to our business and could take any number of forms. In addition, even if we execute a definitive agreement, publicly announce our intention, or otherwise take formal steps, to proceed with any such potential acquisition or divestment, there can be no assurance that we will consummate the transaction within the anticipated timeframe, or at all. If expansion into new business sectors or such divestitures are not successful, our development, growth prospects and results of operations may be adversely affected. On January 20, 2021, we announced on the HKSE that we are considering a possible spin-off and separate listing of our commercial property management and operational services and residential property management services businesses on the main board of HKSE and on January 28, 2021, we submitted its listing application. See “Recent Developments.” We cannot assure you that the possible spin-off, if it eventuates, will generate the economic and commercial benefit that we may expect.

Volatility in the prices of construction materials could adversely affect our business and financial performance

Our results of operations and financial performance are affected by volatility in the prices of construction materials. The cost of construction materials, including cement, iron, steel and other key building materials, constitutes a substantial proportion of our construction costs. Although, as part of our cost control measures, we typically cap the prices of such materials in our construction contracts with our contractors, we are still subject to long-term movements in the prices of construction materials as the capped price may be subject to adjustment in the event of a substantial increase or decrease in the cost of construction materials. We cannot assure you that the prices of raw materials will stabilize in the near future or that the prices of raw materials will be or remain at a relatively low level. In addition, despite the efficiencies and pricing advantages of our bulk purchases when we purchase ancillary construction materials directly from suppliers, any increase in the cost of any construction materials will impact our overall construction costs and cost of sales. If our cost of raw materials were to increase without our being compensated for such an increase or if we cannot pass any or all of the increased costs on to our customers, our profitability may be materially and adversely affected.

Our profitability may fluctuate substantially due to the periodic reassessment of fair value gains or losses on our investment properties

The Hong Kong Accounting Standard for investment properties issued by the Hong Kong Institute of Certified Public Accountants, HKAS 40, provides that investment properties, including investment properties under construction, may be recognized by using either the fair value model or the cost model. We have chosen to recognize investment properties as non-current assets at their fair value, as determined by an independent property valuer, as of each reporting date. Accordingly, any gains or losses arising from changes in the fair value of our investment properties are included in our profit or loss in the period or year in which they arise. DTZ Debenham Tie Leung Limited (“DTZ”), an independent property valuer, revalued our investment properties as of December 31, 2017 and Cushman & Wakefield revalued our investment properties as of December 31, 2018 and December 31, 2019 and June 30, 2020, respectively, and such appraised value may be different from the actual value, if any, we realize upon disposal of the property. Based on such valuations, we recognized the aggregate fair market value of our investment properties in our consolidated statements of financial position, and we recognized the fair value gains (or losses) and the relevant deferred tax on investment properties in our profit or loss.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the changes in fair value of our investment properties were RMB1,262.7 million, RMB1,082.5 million, RMB1,404.9 million (US\$198.9 million) and RMB462.2 million (US\$65.4 million), respectively, representing, 23.1%, 17.9%, 24.0% and 13.0%, respectively, of our profit before tax. Our profit, excluding the changes in fair value of our investment properties (net of deferred tax), was approximately RMB2,501.5 million, RMB2,864.9 million, RMB2,969.8 million (US\$420.3 million) and RMB2,170.0 million (US\$307.1 million), respectively, for the same periods. Fluctuations in the fair market value of our investment properties during the relevant periods were primarily due to the addition and completion of new investment properties, as well as their overall appreciation. These upward revaluation adjustments of our investment properties reflect unrealized capital gains relating to our investment properties at the relevant reporting dates and do not generate any cash inflow to us unless and until such investment properties have been disposed of. The amount of the revaluation adjustments has been, and may continue to be, significantly affected by prevailing real estate market conditions and may be subject to market fluctuations. Consequently, we cannot assure you that changes in the fair value of our investment properties will give rise to the previous or any levels of percentage contribution to our profits, or that any such contribution will not decrease in the future or reflect a loss. In particular, the fair value of our investment properties could decrease in the event that the market for comparable properties in the PRC experiences a downturn as a result of general economic conditions or PRC government policies, or otherwise. Any such decrease in the fair value of our investment properties could have a material adverse effect on our financial position and results of operations.

We have pledged and mortgaged certain assets to secure our borrowings, if we fail to comply with the financial and other covenants under our loan agreements, our financial condition, results of operations and business prospects may be materially and adversely affected

We have entered into loan agreements containing financial and other covenants that require us to impose certain restrictions on the disposition of our assets or give prior notification for certain events and have pledged/mortgaged certain assets, including but not limited to shares and properties of our subsidiaries, to secure some of our general banking facilities. Although we have complied with all financial and relevant covenants, we cannot assure you that we will be able to comply with some of those financial and relevant covenants in the future. If we default on such banking facilities, the repayment of the indebtedness under the relevant loan agreement may be accelerated. We may, in turn, be required to repay the entire principal amount, including interest accrued and unpaid if any, of certain of our other existing indebtedness prior to their maturity under the cross-default provisions of our other loan agreements. If we are required to repay a significant portion or all of our existing indebtedness prior to its maturity, we may lack sufficient financial resources to do so. In that case, the relevant mortgagees or pledgees may foreclose such assets we pledge or mortgage and have priority in repayment. Any of those events could have a material adverse effect on our financial condition, results of operations and business prospects.

Our indebtedness could have an adverse effect on our financial condition, making it more difficult for us to raise additional capital to fund our operations and reduce our ability to explore business opportunities

We maintain a certain level of indebtedness to finance our operations. As of June 30, 2020, the outstanding balance of our total bank and other borrowings, including senior notes and domestic bonds, amounted to RMB45,507.8 million (US\$6,441.2 million). Subsequent to June 30, 2020, our indebtedness has continued to increase. Our indebtedness described above could have an adverse effect on us, such as:

- requiring us to dedicate a large portion of our cash flow from operations to fund repayments on our debts, thereby reducing the availability of our cash flow to expand our business;
- increasing our vulnerability to adverse macro economic or industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such financing;
- restricting us from making strategic acquisitions or exploring potential business opportunities; and
- making it more difficult for us to satisfy our obligations with respect to our debts.

We have incurred and will continue to incur a significant amount of finance costs in relation to our indebtedness. A significant portion of our finance costs are capitalized rather than being expensed at the time they are incurred to the extent such costs are directly attributable to project construction.

In addition, as our indebtedness will require us to maintain an adequate level of cash flow from operations to satisfy our debt obligations as they become due, any decrease in our cash flow from operations in the future may have a material adverse effect on our financial condition.

We may not have sufficient cash resources to support our expansion and property developments and are dependent on future cash flows generated from our business and obtaining additional financing

We have cash requirements for ongoing operating expenses, working capital, general corporate purposes and for interest payments and principal repayments on our outstanding indebtedness. As of June 30, 2020, we had cash and cash equivalents of RMB20,738.1 million (US\$2,935.3 million) and net current assets of RMB4,791.2 million (US\$678.2 million). Our cash used in operations principally comprises amounts that we pay for our property development activities, including the acquisition of land parcels for which land use right certificates have not been obtained. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded net cash flows received from operating activities of RMB3,423.6 million and RMB4,281.6 million, and net cash flows used in operating activities of RMB7,088.3 million (US\$1,003.3 million) and RMB4,054.6 million (US\$573.9 million), respectively. We fund our capital expenditure with proceeds received from pre-sales and sales of our properties and rental income, as well as external financings.

We cannot assure you that we will be able to generate sufficient net cash inflow from our operations in the future. If we are unable to generate sufficient cash from our operations or secure additional financing to meet our obligations, we may default on our payment obligation or be forced to reduce our capital expenditures or may not be able to continue as a going concern. Reduction of our capital expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategies, including our expansion plans, in accordance with our expectations.

We face uncertainties when obtaining land sites through the acquisition of project companies

As of the date of this offering memorandum, in addition to increasing our land bank through competitive bidding, public auction and listing-for-sale, we have obtained land sites for some of our projects through acquisition of project companies that held the land use right. We may continue to obtain land sites through such acquisitions in the future. We cannot assure you that we have discovered, or will be able to discover, all existing or potential liabilities of the target project companies. In addition, the government may change the permitted use of the land for which such project companies own the land use right after our acquisitions, rendering the land sites unsuitable for our property development purposes. If any of the undiscovered existing or potential liabilities of the acquired project companies are found to be material, or if we are unable to develop properties on the land sites to which the acquired project companies have the land use right, our business, financial conditions and results of operations may be materially and adversely affected. In addition, we may acquire such a project company for an amount that is less than its fair market value, resulting in gains recognized on our profit or loss. However, such gains do not give rise to any change to our cash position and therefore we may experience constraints on our liquidity even though our profitability is increased.

We face contractual risks relating to the pre-sale of properties, including the risk that property developments cannot be completed, or cannot be completed on time

We face contractual risks relating to the pre-sales of properties. Failure to timely complete and/or deliver a pre-sold property may cause us to be liable to the relevant purchasers for losses suffered by them. Our failure to complete property developments in the time required by pre-sale contracts may entitle purchasers to claim damages under the pre-sale contracts, and in the event that such failure causes a delay that extends beyond any grace period stipulated in the pre-sale contracts, purchasers may be entitled to terminate the pre-sale contracts, claim damages and request a refund of their purchase amount together with interest. We cannot assure you that we will not experience any delays in completion or delivery of our properties or that we will not be subject to any liabilities for such delays in the future.

We guarantee mortgage loans of our pre-sale customers, and we may become liable to the mortgagee banks if our customers default; any changes in laws and regulations governing such guarantees may affect our business

Commercial banks in China which provide residential mortgage loans typically require us to guarantee loans for pre-sale customers until the construction and the development of the relevant properties have been completed and the property ownership certificates are delivered to the mortgagee banks. Such guarantees generally last from one year to two years before we deliver possession of and title to the relevant properties to the customers and the property ownership certificates to the mortgagee banks at which time such guarantees are released. We do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks when providing this guarantee. If a purchaser defaults on a mortgage payment, we may have to repay the outstanding principal together with the accrued interest and penalties owed by the defaulting purchaser to the banks. If we fail to do so, the mortgagee bank may dispose of the underlying property and recover any additional amount outstanding from us as the guarantor for the mortgage loan. We cannot assure you that no purchaser of our properties will default on the mortgage payment in the future. If substantial defaults occur and we are called upon to perform our guarantees, our financial condition and results of operations could be materially and adversely affected.

In addition, if there are changes in laws, regulations, policies and practices that have the effect of prohibiting real estate developers from providing guarantees to banks in respect of mortgage loans offered to purchasers and these banks do not accept guarantees provided by other third parties, or if no third party is available in the market to provide such guarantees, property purchasers may have more difficulties in obtaining mortgage loans from banks during pre-sales. Such difficulties could result in a substantially lower rate of pre-sales of our properties, which could in turn adversely affect our business, financial condition and results of operations.

We are subject to legal and business risks if we fail to maintain qualification certificates

Real estate developers like us must maintain formal qualification certificates in order to carry out property development business in China. For further details, please see “Regulation — Legal supervision relating to real estate sector in the PRC.” Certain qualification certificates are subject to review and renewal on an annual basis. In reviewing an application to renew a qualification certificate, government authorities may consider factors such as the property developer’s registered capital, property development investments, history of property development, quality of real estate construction, expertise of management, and whether the developer has conducted any illegal or inappropriate operations. We cannot assure you that all of our operations are in strict compliance with the relevant laws and regulations and the local authorities will not deny our renewal requests on such grounds. For example, if the total GFA constructed exceeds the GFA originally authorized in the relevant land grant contract or government permit, or if the completed property contains built areas that do not conform with the plan as set forth in the relevant government permits, we may be required to pay additional amounts or take remedial actions in relation to such non-compliant GFA before we are able to obtain the relevant qualification certificate. Any finding that a substantial portion of such GFA does not comply with the relevant contracts or permits could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations may be affected if the land use right relating to the SCE Building is revoked due to inconsistent land use purposes

We have offices at the SCE Building, and we have been leasing out certain office units in that building to third parties. However, the use of the SCE Building for commercial purposes is inconsistent with the use prescribed in its land grant contract, which is specified for storage purposes. Our PRC legal advisor has advised us that we may be subject to a penalty for such inconsistent land use and that the PRC government may require us to pay an additional land premium to change the permitted use specified in the land use right certificate or even issue an order to revoke the grant of land use right. Our PRC legal advisor has also advised us that in the event an order to revoke the land use right certificate is issued, we may be forced to

terminate lease agreements with tenants in the SCE Building and indemnify losses suffered by such tenants as a result of early termination of such lease agreements. In the event that the relevant PRC authority in charge of land administration revokes the land use right granted to us for the SCE Building, our offices located in the SCE Building may have to be relocated and we cannot assure you we can identify proper premises for such offices or do so with reasonable costs. If any of the above events occur, our business and financial condition could be adversely affected.

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

Real estate developers are subject to land appreciation tax, or LAT on the appreciation in the value of their land and the improvements on the land under relevant PRC tax laws and regulations. See “Regulation — Legal supervision relating to real estate sector in the PRC — Major taxes applicable to real estate developers — (c) Land appreciation tax.”

We estimate and make provision for the amount of applicable LAT at the time the relevant property sales revenue is recognized and recorded in our books, but actual LAT payment will only be made at the time specified by the relevant PRC tax laws and regulations. We cannot assure you that the local tax authorities will agree with the basis on which we calculate our LAT obligations during the relevant periods. In addition, we cannot assure you that the applicable tax rate for LAT will not increase, or that the PRC government or local tax authorities will not abolish the authorized taxation method, or that we will be able to obtain approval in the future to use the authorized taxation method. If the relevant tax authorities determine that a higher amount of LAT should be paid, our profits could be materially and adversely affected.

Furthermore, relevant notices issued by the PRC government relating to the settlement of LAT allow provincial tax authorities to formulate their own implementation rules according to the local situation. If the implementation rules promulgated in the provinces in which our projects are located require us to settle all unpaid LAT at the same time, or impose other conditions, our cash flows may be materially and adversely affected.

We may be involved in disputes, administrative, legal and other proceedings arising out of our operations from time to time may affect our reputation and our business, financial condition and results of operations

We may be involved in disputes with various parties involved in the development and sale of our properties, including contractors, suppliers, construction workers, tenants, residents of surrounding areas, business partners and purchasers. These disputes may lead to protests and legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs, delay in our development schedule and diversion of resources and management’s attention.

We carry out some of our business through joint ventures with our business partners. Such joint venture arrangements involve a number of risks, including, but not limited to:

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

Furthermore, as some of our projects comprise multiple phases, purchasers of our properties in earlier phases may commence legal action against us if our subsequent planning and development of the projects is perceived to be inconsistent with our representations and

warranties made to such earlier purchasers. In addition, we may have compliance issues or disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that may result in liabilities and cause delays to our property development. We may also be involved in disputes or legal proceedings in relation to delays in the completion and delivery of our projects. The occurrence of any of the above events may have a material adverse effect on our business, financial condition and results of operations. Finally, any failure or alleged failure by us or any of our directors, officers or other agents to fully adhere to the PRC or other applicable anti-corruption laws or regulations, any investigation in relation to such failure or alleged failure by any regulatory body, or any failure to comply with other applicable laws or regulations could materially and adversely affect our reputation and our business, financial condition and results of operations.

Our success depends significantly on our ability to retain our senior management team and our ability to attract additional qualified management and other personnel

Our future success depends significantly on the continued services and performance of our management and in particular, our Chairman, Mr. Wong. In addition, we depend on the continued service of members of our senior management team who possess extensive experience in the PRC property development industry. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present position, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected.

In addition, we believe our ability to attract and retain skilled staff is critical to our continued growth and successful implementation of our strategies. If we cannot attract and retain suitable human resources, our business and future growth will be materially and adversely affected.

Our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of holder of the Notes

As of June 30, 2020, Newup Holdings Limited (“Newup”), which is wholly owned by Mr. Wong, our Chairman, is our largest shareholder owning an approximately 50.40% equity interest in the Company. The interests of Mr. Wong and Newup may differ from the interests of the holders of the Notes.

Mr. Wong and Newup will be in a position to exert significant influence over our affairs and in determining the outcome of any corporate action or other matters submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, Mr. Wong and Newup will also have the power to prevent or cause a change in control of our Company. Without the consent of Mr. Wong and Newup, we may be prevented from entering into transactions that could be beneficial to us and the holders of the Notes. We cannot assure you that Mr. Wong and Newup will act completely in the interests of the holders of the Notes or that possible conflicts of interest will be resolved in favor of the holders of the Notes.

We rely on our trade name and trademarks, and any infringement upon or inappropriate use of our trade name or trademarks may be detrimental to our reputation and profitability

We believe that our logo, trade name and trademarks form an integral basis for our strong brand recognition and are important to our business. As of June 30, 2020, we were the registrant of 85 registered trademarks in the PRC and Hong Kong in a number of classes (including those for our property development businesses). We have the sole and exclusive ownership of our logo, trade name and trademarks for the classes in which they are registered.

We are not aware of any material violations, infringements upon or unauthorized use of our logo, trade name or trademarks. We are also not aware of any infringement of any third parties' intellectual property rights through our use of our logo, trade name and trademarks. However, we cannot assure you that our trade name or trademarks will not be subject to any infringement in the future. Any unauthorized or inappropriate use of our logo, trade name or trademarks

could harm our market image and reputation, which may materially and adversely affect our financial condition and results of operations. In particular, Fujian Quanzhou Transformer Manufacturing Company Limited (福建省泉州變壓器製造有限公司) (“Quanzhou Transformer”) a company controlled by Mr. Wong, has registered the trademarks in the PRC in the areas of manufacturing of transformers and other electric machinery. We do not have any control over the use of these trademarks by Quanzhou Transformer in such areas, and any negative publicity concerning such use by Quanzhou Transformer, even without merit, may have an adverse impact on our image and brand recognition. Any litigation or dispute in relation to our logo, trade name or trademarks could result in substantial costs and the diversion of resources and attention of our management, and may materially and adversely affect our business and results of operations.

If the value of our brand or image diminishes, our business and results of operation may be materially and adversely affected.

Our reliance on independent contractors for completion of our projects may result in substantial costs and delays

We engage independent contractors to provide substantially all construction services relating to our projects, including but not limited to, pile setting, foundation digging, general, construction, equipment installation, internal decoration, electromechanical engineering, pipeline engineering and utilities installation. We assess and select independent contractors mainly through tender based on their reputation for reliability, timeliness, quality, track record and references, and we supervise the construction progress once a contract is awarded. We cannot guarantee that any of our independent contractors will provide satisfactory services that meet our quality standards, or follow applicable laws, rules and regulations in performing their contractual obligations. In addition, the independent contractors may undertake projects from other developers, engage in risky undertakings or otherwise encounter financial or other difficulties, which may delay the completion of our real estate projects or impose additional costs on us. If we need to terminate the engagement of a contractor, we may not be able to find a replacement contractor on suitable terms, if at all, and the timetable for completing projects could be affected. Each of these factors could materially and adversely affect our reputation, financial position and business operations.

Resettlement negotiations may add costs or cause delays in completion of our development projects

Under PRC laws and regulations, when we are responsible for the demolition of existing properties on a site for development and relocation of existing residents, we will be required to pay resettlement costs to those residents.

In such circumstance, it is likely that we will be required to compensate owners and residents of demolished buildings for their relocation and resettlement in accordance with the PRC urban housing demolition and relocation regulations. The compensation we will have to pay is calculated in accordance with formulae published by the relevant local authorities. These formulae take into account the location, type of building subject to demolition, local income level and many other factors. We cannot assure you, however, that these local authorities will not change or adjust their formulae from time to time with or without sufficient advance notice. If they do so, the land costs may be subject to substantial increases, which can adversely affect our cash flow, results of operations and financial position. In addition, if we fail to reach an agreement over the amount of compensation with any existing owner or resident, either we or such owner or resident may apply to the relevant authorities for a ruling on the amount of compensation. Dissenting owners and residents may also refuse to relocate. Such administrative process or such resistance or refusal to relocate may delay the timetable of our development projects or, in extreme cases, prevent their completion, and an unfavorable final ruling may result in us paying more than the amount the formulae call for. Any of these events could have a material adverse effect on our business, results of operations and financial position.

We rely heavily on dividend payments from our subsidiaries and joint ventures for funding

We are a holding company incorporated in the Cayman Islands and conduct substantially all of our operations through our subsidiaries and joint ventures that are established and operate in the PRC. Most of our assets are held by, and substantially all of our earnings and cash flows are attributable to, our subsidiaries and joint ventures. As such, the availability of funds from which we are able to service our indebtedness depends upon dividends received from these subsidiaries and joint ventures. PRC laws and regulations require that dividends be paid only out of the net profit calculated according to the Accounting Standards for Business Enterprises issued by The Ministry of Finance of the PRC (中國財政部) (“MOF”), which differ in many aspects from HKFRS. PRC laws and regulations also require all companies in the PRC, including foreign-invested enterprises, such as some of our subsidiaries or joint ventures in the PRC, to set aside 10% of their net profit as statutory reserves, which are not available for distribution as cash dividends provided that no transfer is required if our accumulated statutory common reserve fund exceeds 50% of our registered capital. We cannot assure you that our subsidiaries and joint ventures will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable us to meet our financial obligations, including making interest payments. If the distributable dividends from our subsidiaries and joint ventures decline for any reason, our earnings and cash flows will be materially and adversely affected and our ability to service our indebtedness would be restricted.

Acts of God and other disasters could affect our business

Natural disasters, epidemics such as the recent COVID-19 pandemic, acts of God and other events and disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihoods of the people in the PRC. Some cities in the PRC are under the threat of flood, typhoon, earthquake or drought. For example, in the past, Fujian Province has been hit by typhoons from time to time. Our business, financial condition and results of operations may be materially and adversely affected if natural disasters or other above events occur.

Our remittance of offshore funds into the PRC is subject to approval by the PRC government

The Notice on Further Strengthening the Regulation on Approval and Supervision of Foreign Direct Investment in Real Estate Industry in the PRC (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) jointly issued by the Ministry of Commerce of the PRC (中國商務部) (“MOFCOM”) and the State Administration of Foreign Exchange (“SAFE”) on May 23, 2007 and amended on October 28, 2015, the Notice regarding Promulgation of Administrative Measures on Foreign Debt Registration (國家外匯管理局關於發佈〈外債登記管理辦法〉的通知) issued by SAFE on April 28, 2013, which became effective on May 13, 2013 and amended on May 4, 2015, and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (外債登記管理操作指引), and the Notice of the State Administration of Foreign Exchange and Ministry of Construction on Regulating the State Administration of Foreign Exchange in Real Estate Market (國家外匯管理局、建設部關於規範房地產市場外匯管理有關問題的通知), which was promulgated jointly by Ministry of Construction and SAFE on September 1, 2006, and was further revised by 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 (國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知) dated May 4, 2015, stipulate, among other things, (i) that the local foreign exchange authorities will no longer process foreign debt registrations or foreign debt applications for the settlement of foreign exchange submitted by real estate enterprises with foreign investment that obtained approval certificates from and registered with MOFCOM on or after June 1, 2007; (ii) that the local foreign exchange authorities will no longer process foreign exchange registrations (or any change in such registrations) or applications for settlement and sale of foreign exchange submitted by real estate enterprises with foreign investment that obtained approval certificates from local commerce departments on or after June 1, 2007, but did not register with MOFCOM. These regulations effectively prohibits us from injecting funds into our PRC project companies by way of shareholder loans; and (iii) a foreign-

funded real estate enterprise that fails to acquire a land use right certificate or make the capital fund of its development project reach 35% of the total investments of such project shall not borrow any foreign debt from abroad, and SAFE shall not grant registration of such foreign debts or approve the foreign exchange settlement for such foreign debts.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and registration with MOFCOM, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with this regulation.

Further, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy in the PRC, or that prevent us from deploying in the PRC, the funds raised outside China. Therefore, we may not be able to use all or any funds that we may raise outside China to finance our projects in a timely manner or at all.

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

We are subject to certain laws and regulations concerning the protection of the environment. The particular environmental laws and regulations that apply to each of our property development projects vary according to its location, the environmental issues associated with such development, the manner of its construction and/or operations and the current and future use of the land and the properties. If the PRC government strengthens its environmental regulations or enforcement, our projects may be more strictly reviewed and inspected, and approval processes for future projects or any alteration to existing projects may be prolonged.

Compliance with environmental laws and conditions may result in delays, cause us to incur substantial compliance and other costs and prohibit or severely restrict our activity in environmentally-sensitive regions or areas. For instance, we are required to submit an environmental impact assessment report to the relevant government authorities for approval before commencing construction of a project. When there is a material change in respect of the construction site, or in the scale or nature of a given project, or if the project is commenced after 5 years of obtaining the environmental assessment approval, a new environmental impact assessment report must be submitted for approval. Failure to comply with such requirements may lead to suspension of the construction of the project or a fine of no less than 1% but no more than 5% of the total investment of such construction project and an order to restore the environment to the original state. We cannot assure you that the relevant environmental authorities will not order us to suspend construction of these projects or will not impose a fine on us. In the event that there is a suspension of construction or imposition of a fine, this may adversely affect our business and financial condition.

We cannot assure you that future environmental investigations will not reveal material environmental liabilities. Also, we cannot assure you that the PRC government will not change existing laws and regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant costs. If we are unable to effectively comply with these changes, we may incur significant costs and may be subject to fines or be forced to suspend or shut down certain operations or property development, which could have a material and adverse effect on our operations.

We may suffer losses and claims arising from uninsured risks

Other than such types of insurance as are mandatorily required under the PRC law and which are generally maintained by real estate developers in the PRC, we do not maintain insurance coverage against potential losses, destruction or damage with respect to our properties developed for sale before their delivery to customers, nor do we maintain insurance

coverage against liability from tortious acts or other construction-related personal injuries on our project sites or environmental damage arising from our operations. Under PRC laws, construction companies bear primary civil liability for personal injuries of their employees arising out of their construction work. The owner of a property under construction may also bear liability supplementary to the liability of the construction company if the latter is not able to fully compensate the injured. We cannot assure you that we will not be sued or held liable for damages due to any tortious acts. In addition, there are certain types of losses for which insurance is not generally available on commercially practical terms, such as losses suffered due to business interruption, earthquake, flooding or other natural disaster, war or civil disorder. Therefore, while we believe that our insurance practice is in line with general practice in the PRC property development industry, there may be instances when we will have to internalize losses, damage and liabilities because of our lack of insurance coverage. If we suffer any losses, damages or liabilities in the course of our business operations, we may not have sufficient funds to cover them or to replace any property under development that has been destroyed. In addition, any payment we make to cover any such losses, damages or liabilities could have a material adverse effect on our business, results of operations and financial condition.

Any global economic slowdown and financial market turmoil may adversely affect our business, liquidity, financial condition, results of operations and prospects

The global financial markets experienced significant disruptions in 2008 and the United States, European and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and the global financial markets are facing new challenges, including the escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve Board and the economic slowdown in the Eurozone in 2014. It is unclear whether these challenges will continue and what effects they each may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. In addition, on June 23, 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). The United Kingdom ceased to be a member of the European Union on January 31, 2020. During the period from that date to December 31, 2020, certain transitional arrangements were in effect, such that the UK continued to be treated, in most respects, as if it were still a member of the EU, and generally remained subject to EU law. On December 24, 2020, the EU and the UK reached an agreement in principle on the terms of certain agreements and declarations governing the ongoing relationship between the EU and the UK, including the EU-UK Trade and Cooperation Agreement (the "TCA"). On December 29, 2020, the Council of the European Union adopted a decision authorizing the signature of the TCA and its provisional application in the EU for a limited period (the "Provisional Period"), pending ratification of the TCA by the European Parliament. The TCA was subsequently signed on behalf of the EU on December 30, 2020; and the Provisional Period commenced on January 1, 2021, and is expected to end no later than April 30, 2021. Legislation to implement the TCA in the UK came into effect beginning on December 31, 2020. However, the TCA is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the UK's future economic, trading and legal relationships with the EU and with other countries. In addition, it is possible that the TCA may not be ratified by the European Parliament prior to the end of the Provisional Period, or at all, which would lead to further uncertainty as to the nature and terms of any subsequent relationships between the EU and the UK, and disruption may arise as a result. The actual or potential consequences of Brexit, and the associated uncertainty, could adversely affect economic and market conditions in the UK, in the EU and its member states and elsewhere, and could contribute to instability in global financial markets. The effect of such potential events on the Company or the Notes is impossible to predict; but they could significantly impact volatility, liquidity and/or the market value of securities, including the Notes, and could have a material adverse effect on the Company's ability to make payments on the Notes.

Economic conditions in China are sensitive to global economic conditions. In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. The full impact of the Moody's downgrade remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. If China's economic conditions worsen, or if the banking and financial systems experience difficulties from overindebtedness, businesses in China may face a more challenging operating environment. China's economic growth may also slow due to weakened exports and nationwide structural reforms as well as recent developments surrounding the trade war with the United States. In 2018 and 2019, the U.S. government, under the administration of President Donald J. Trump, imposed several rounds of tariffs on cumulatively US\$550 billion worth of Chinese products. In retaliation, the PRC 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 PRC government lodged a complaint in the World Trade Organization against the United States over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to global markets. On January 15, 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 United States 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. The roadmap to the comprehensive resolution remains unclear, and the lasting impact the trade war may have on China's economy and the real estate industry remains uncertain. Meanwhile, political tensions between the U.S. and China have escalated due to, among other things, the COVID-19 outbreak, the PRC National People's Congress' passage of Hong Kong national security legislation, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC and the executive orders issued by U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with ByteDance Ltd., Tencent Holdings Ltd. and the respective subsidiaries of such companies. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations. 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 global economic slowdown and financial market turmoil 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 global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and financial market turmoil continue, our business, financial condition and results of operations may be negatively affected.

We are subject to legal and business risks for the non-registration of our leases

The lease agreements for all the properties that we rented from third parties and all the properties that we leased to third parties have not been registered. Our PRC legal advisor has advised us that the requirement for the leases to be registered is an administrative measure, the non-compliance of which may result in an administrative penalty but does not affect the validity of the leases, however, we may face the risk of being determined by the relevant court of not being able to challenge any bona fide third party. We cannot assure you that the relevant administrative authorities will not impose a fine on us and a bona fide third party will not challenge our leases.

RISKS RELATING TO THE REAL ESTATE SECTOR IN THE PRC

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

Our business is subject to extensive governmental regulation and, in particular, we are sensitive to policy changes in the PRC property sector. The PRC government exerts considerable direct and indirect influence on the growth and development of the PRC property market through industry policies and other economic measures such as setting interest rates, controlling the supply of credit by changing bank reserve ratios and implementing lending restrictions, increasing tax and duties on property transfers and imposing restrictions on foreign investment and currency exchange. Since 2004, the PRC and local governments introduced a series of regulations and policies designed to generally control the growth of the property market, including, among others:

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

In particular, the PRC and local governments also introduced the following policies, among others, to specifically restrain property purchases for speculation purposes and refrain property prices from rising too quickly in certain cities:

- limiting the maximum amount of monthly mortgage and the maximum amount of total monthly debt service payments of an individual borrower;
- imposing a business tax levy on the sales proceeds for second-hand transfers subject to the length of holding period and type of properties;
- raising the minimum percentage of down payment of the purchase price of the residential property of a family;
- restricting purchasers from acquiring second (or more) residential property and imposing property purchase restrictions on non-local residents that cannot provide any proof of local tax or social security payments for more than a specified time period in certain cities; and
- restricting the availability of individual housing loans in the property market to individuals and their family members with more than one residential property, and raising interest rates of such loans.

These and other measures, including additional requirements for pre-sales and restricting the use of funds raised by pre-sales, made the properties we developed more costly, unattractive or even unavailable to certain of our customers. For example, on December 28, 2020, PBOC and China Banking and Insurance Regulatory Commission (“CBIRC”, with its name changed from China Banking Regulatory Commission in 2018, “CBRC”) jointly promulgated the Notice of PBOC and CBIRC on Establishing a Centralization 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 two years or four 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 December 31, 2020. Under the notice, PBOC and 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.

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 our access to capital, reduce market demand for our products and increase our finance costs, and any easing measures introduced may also not be sufficient. We currently do not expect the impacts on our overall operation of the abovementioned new restrictive policies, regulations and measures be significant because we are able to modify our operating strategies among different regions accordingly as we currently operate in China and such restrictive policies are mainly effective in particular cities. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes negatively impact our business, our financial condition, results of operations and prospects may be materially and adversely affected.

The measures adopted from time to time by the PRC government to regulate the PRC real estate market could slow the industry's rate of growth or cause the real estate market to decline

From 2004 to the first half of 2008, in response to concerns over the scale of the increase in real estate investment and the overheating of the real estate sector in the PRC over the past few years, the PRC government has introduced a number of policies, including the following, to control the growth and curtail the overheating of, and to control foreign investment in, the PRC real estate sector:

- suspending or restricting land grants and development approvals for villas and larger-sized units;
- charging an idle land fee for land which has not been developed within one year of the commencement date stipulated in the land use right grant contract and canceling land use right for land which has not been developed within two years or more;
- prohibiting any onward transfer of pre-sold properties before the ownership certificate is obtained;
- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year be used for developing low to medium-cost housing, small to medium-size units and low-cost rental properties;
- requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 consist of units with floor areas of less than 90 sq.m. per unit, and that projects which have received project approvals prior to this date but have not obtained construction permits adjust their construction plan in order to be in compliance with this new requirement, with the exception of municipalities under direct administration of the PRC central government, provincial capitals and certain cities which may deviate from this ratio under special circumstances upon the approval by the Ministry of Construction;
- tightening availability of bank loans to real estate developers and purchasers of developed properties and increasing the reserve requirements for commercial banks;
- imposing or increasing taxes on short-term gains from second-hand property sales; and

- restricting foreign investment in the real estate sector by, among other things, increasing registered capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons.

Beginning in the second half of 2008, in order to mitigate the impact of the global economic slowdown, the PRC government has adopted measures to encourage domestic consumption in the residential real estate market and support property development. We cannot assure you that such economic recovery measures will continue to be implemented. These policies may not necessarily have a positive effect on our operations and our future business development; and the PRC government may revise or terminate such favorable policies according to changes in market conditions.

Starting from the second half of 2009, the residential real estate prices in certain cities in China rose rapidly. In order to reduce the risk of the overheating of the real estate market and possible formation of a speculative bubble, the PRC government introduced a series of regulatory measures in an effort to stabilize the real estate market and facilitate its sustainable development. Prominent measures and policies, among others, include:

- Require the minimum down-payment of the land premium. In November 2009, the PRC government introduced new rules which provide for a minimum down-payment of 50% of the land premium relating to land purchases from the PRC government and forbid local governments from giving discounts to developers or allowing developers to delay payments except as stipulated by the State Council. In March 2010, the PRC government further tightened this requirement by setting the minimum price for land grant to be equal to at least 70% of the benchmark price for land in the surrounding locality and the bidding deposit to be equal to at least 20% of the applicable minimum land grant price.
- Raise the down-payment ratio and residential mortgage loan interest rate. In April 2010, the State Council promulgated a new directive which raised the down-payment ratio for purchases of first homes and second homes from 20% to 30% and from 40% to 50%, respectively. In January 2011, the State Council further promulgated regulations providing that the down-payment ratio for purchases of second homes shall not be less than 60%. The same directive also raised the interest rate applicable to mortgage loans for second home purchasers to 1.1 times the benchmark lending rate. In addition, as one of the most potent measures under the directive, mortgage loans for third home purchases have been suspended in some municipalities and cities.
- Limit the number of houses that can be purchased. Starting from April 2010, certain municipalities and cities adopted local measures limiting the number of houses that a single household can purchase. As of November 1, 2010, 14 municipalities and cities, such as Beijing, Shenzhen and Guangzhou, have promulgated such measures. The government of Xiamen also promulgated similar measures, but restricted its validity period to the end of 2010.
- Increase the supply of public housing. In its Proposed Twelfth Five-year Development Plan, the PRC central government has set as its long-term policy to provide affordable housing to low- and middle-income families and increase the supply of public housing to targeted populations.

On February 26, 2013, the General Office of the State Council issued the Notice on Continuing to improve the Regulation and Control of 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) which requires, among other restrictive measures, expanding ordinary commodity housing units and increasing the supply of land. The overall housing land supply in 2013 shall not be lower than the average actual land supply in the past five years.

To support the demand of buyers of residential properties and promote the sustainable development of China's real estate market, the PBOC and the CBRC jointly issued a notice in September 2014, which provides that where a household that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve its living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a household that owns two or more residential properties and has paid off all of its the existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency and credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions as required by relevant policies.

In March 2015, the PBOC, CBRC and the Ministry of Housing and Urban-Rural Development ("MOHURD") jointly issued a notice to lower the minimum down payment to 40% for households that own a residential property and have not paid off their existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve their living conditions, and allow the bank to decide at its own discretion the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower. In the first half of 2016, the PRC government adopted different real estate stimulus policies in different cities with the goal of continuing inventory clearance in the real estate industry. See "Risk Factors — Risks Relating to the Real Estate Sector in the PRC — The measures adopted from time to time by the PRC government to regulate the PRC real estate market could slow the industry's rate of growth or cause the real estate market to decline." Such policies boosted the demand for real properties and the real estate prices experienced an increase, especially in first-tier and second-tier cities. The PRC government adopted certain restrictive measures towards the end of 2016 to cool down the real estate industry. The new measures include, among other things, higher minimum down payment requirements, restrictions on purchase of properties and tightened loan policies. Further details of the above regulations are set out in "Regulation."

On September 13, 2018, Beijing Municipal Housing Provident Fund Management Center issued Notice of Beijing Municipal Housing Provident Fund Management Center on Adjusting Housing Provident Fund Loan Policies (北京市住房公積金管理中心關於調整住房公積金個人住房貸款政策的通知), which provides loan quota to be linked with the years of payment of housing provident fund where loan applicants can apply for a maximum loan of RMB100,000 for every one year of payment of housing provident fund. For calculation of maximum loan amount under this policy, payment of housing provident fund for less than one year will be considered as one year, and an applicant can apply for a maximum loan of RMB1.2 million.

The PRC government's measures to control the industry's rate of growth could limit our access to capital resources, reduce market demand and increase our operating costs. The PRC government may adopt additional and more stringent measures in the future, which could further slow the development of the construction and property development industries and materially and adversely affect our business and results of operations. In particular, any additional or more stringent measures imposed by the PRC government in the future to curb high-end residential real estate projects may materially and adversely affect our business and results of operations.

The property development industry in the PRC is still in a relatively early stage of development and lacks adequate infrastructure support

Private ownership of real estate in the PRC is still in a relatively early stage of development. It is extremely difficult to predict how much demand will develop and when, as many social, political, economic, legal and other factors beyond our control may affect the development of the market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for residential and commercial properties may discourage investors from acquiring new properties because resale can be a difficult, long and costly process. The relatively limited amount of real estate mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of proprietary rights, may further inhibit demand for residential developments.

In addition, the PRC real estate market is volatile and may experience under-supply or over-supply and real estate price fluctuations. The PRC government has in the past adjusted monetary and other economic policies on a frequent basis in order to stimulate the PRC economy or to prevent or curtail the overheating of the PRC and local economies, and such economic adjustments have affected the real estate market in the PRC. The PRC government may, from time to time, continue to make policy adjustments and adopt new regulatory measures in order to encourage or control the development of the real estate market in the PRC. Such policies may lead to further changes in market conditions, including price instability and imbalance of supply and demand in respect of residential and commercial properties, which may materially and adversely affect our business, financial condition and results of operations. We cannot assure you that there will not be over-development in the real estate sector in the PRC in the future. Any future over-development in the real estate sector in the PRC may result in an over-supply of properties and a decrease in real estate prices, as well as an under-supply of available sites for future development and an increase in the cost of acquiring land in our target real estate markets, which may adversely affect our business, financial condition and results of operations. Because changes in the real estate markets are difficult to predict, and because of the long lead times necessary to develop projects from planning through construction to completion, we may not be able to respond to fluctuations in the market quickly enough to prevent losses.

The PRC real estate market has been cyclical and our property development activities are susceptible to significant fluctuations

Historically, the PRC real estate market has been cyclical. The rapid expansion of the real estate market in certain major provinces and cities in China, including Guangdong Province, in the early 1990s culminated in an over-supply in the mid-1990s and a corresponding fall in real estate values and rentals in the second half of the decade. Since the late 1990s, private residential real estate prices and the number of residential property development projects have increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC provinces and cities such as Beijing, Shanghai, Shenzhen and Guangzhou have experienced rapid and significant growth. In recent years however, risk of real estate over-supply is increasing in parts of China, where real estate investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, together with the effect of the PRC government policies to curtail the overheating of the real estate market, real estate prices may fall significantly and our revenue and results of operations will be adversely affected. We cannot assure you that the problems of over-supply and falling real estate prices that occurred in the mid-1990s will not recur in the PRC real estate market and the recurrence of such problems could adversely affect our business and financial condition. The PRC real estate market is also susceptible to the volatility of global economic conditions.

The cyclical nature of the real estate market in the PRC affects the optimal timing for the acquisition of sites, pace of development as well as the sale of properties. This cyclicity, combined with the lead time required for completion of projects and the sale of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from year to year.

The PRC government may reclaim our land and impose other penalties on us if we fail to comply with the terms of the relevant land grant contracts

Under PRC laws and regulations, if a real estate developer fails to develop the land according to the terms of the land grant contract, including the designated use of the land and the time frame for commencement and completion of the property development, the PRC government may issue a warning or impose a penalty on the developer or, in the worst possible

scenario, reclaim the land. Specifically, according to the land grant contracts applicable to our projects, if we fail to pay any outstanding land premium by the stipulated deadline, we may be subject to a late payment penalty of 0.05% to 0.1% of the unpaid land premium per day. In accordance with Measures for the Disposal of Idle Land (《閒置土地處置辦法》), enacted and enforced by Ministry of Land and Resources (中國國土資源部) (“MLR”) on April 28, 1999, revised and adopted by MLR and come into effect as of July 1, 2012 and other relevant PRC laws and regulations, if we fail to commence development by one year from the commencement date as stipulated in the land grant contract, the government authority may serve a warning notice on us and impose an idle land fee up to 20% of the land premium and require us to pay land appreciation fees. If we fail to commence development by two years from the relevant commencement date, the land resources bureau may reclaim the land without giving us any compensation. If the construction works have not started after two years from the date stipulated under the relevant land grant contract, the government authority may reclaim the site without any compensation unless the delay in commencement of construction is caused by force majeure or acts of government or indispensable preliminary work before commencement of construction. In the Notice on Promoting the Saving and Intensification of Use of Land (《國務院關於促進節約集約用地的通知》) promulgated by the State Council on January 3, 2008, this policy was reinforced. This notice states, among other things, that the MLR and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, MLR issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land (《關於嚴格建設用地管理促進批而未用土地利用的通知》) in August 2009, which reiterates the current rules on idle land. We cannot assure you that circumstances leading to reclamation or significant delays in development schedule will not arise in the future.

In addition, notwithstanding that the commencement of the land development is in compliance with the timeframe set out in the land grant contract, the land may be treated as idle land and be subject to reclamation if the developed GFA on the land is less than one-third of the total planned GFA of the project or the total capital invested is less than one-quarter of the total investment of the project, and the period of suspension of the development of the land exceeds one year.

We cannot assure you that circumstances leading to payment of idle land fees and additional land premium, reclamation of land or significant delays in development schedules may not arise with respect to one or more properties developed or acquired by us. If any of our land is reclaimed, we may lose the opportunity to develop our real estate projects on such land, and we may also lose all of our past investments in such land, including land premiums paid and development costs incurred, which could adversely affect our business, results of operations and financial condition.

RISKS RELATING TO CONDUCTING OPERATIONS IN THE PRC

Substantially all of our assets, business and operations are located in the PRC and all of our revenue is derived from the PRC. Accordingly, our business, financial condition, results of operations and prospects are subject to a significant degree to economic, political and legal developments in the PRC.

Changes in the economic and political environment in the PRC and policies adopted by the PRC government to regulate its economy may adversely affect our business, operating results and financial condition

Prior to 1978, the PRC’s economy was a planned economy. Since 1978, the PRC government has been pursuing economic reform policies that encourage the utilization of market forces and greater economic decentralization, with an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a “market economy” and enterprise reform. Although our directors believe the economic reform policies will have a positive effect on the PRC’s overall long-term development, our operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretations thereof), measures which might be

introduced to control inflation, changes in the rate or method of taxation, imposition of additional foreign exchange controls and restrictions on currency conversion and the imposition of additional import restrictions. Moreover, even if new policies may benefit real estate developers in the long run, we cannot assure you that we will be able to successfully adjust to such policies.

There has been a slowdown in China's GDP growth rate in recent years. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2015 slowed down to 6.9% on a year-on-year basis compared to 7.3% in 2014. It further decreased to 6.7% in 2016 on a year-on-year basis, representing the slowest growth in the past 20 years, and it then increased to 6.9% in 2017 and decreased to 6.6% in 2018 and 6.1% in 2019 on a year-on-year basis. According to the National Statistics Bureau of the PRC, the growth rate of fixed asset investments in China has also been declining in recent years. This has raised market concerns that the historic rapid growth of the economy of China may not be sustainable. We cannot assure you that China's GDP will not shrink in the future. The PRC economy differs from the economies of most developed countries in many aspects, including but not limited to, its structure, level of development, economic growth rate, foreign exchange control, allocation of resources and balance of payment position. If there is a slowdown in the economic growth of the PRC or if its economy experiences a recession, demand for real estate may also decrease and our business, financial condition and results of operations may be materially and adversely affected.

In addition, our operations may be affected by a variety of factors, some of which may be beyond our control, including:

- political instability or changes in social conditions within the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- implementation or abolition of any preferential policies;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- the imposition of additional restrictions on currency conversion and remittances abroad.

Any significant changes in relation to any of these factors may materially and adversely affect our business, financial condition and results of operations.

Certain aspects of the treatment of our companies for PRC enterprise income tax purposes are unclear and interest on or in respect of the Notes and gain from the disposition of the Notes may be subject to PRC tax

The Enterprise Income Tax Law ("EIT Law") became effective on January 1, 2008 and amended on February 24, 2017 and further amended on December 29, 2018. Pursuant to the EIT Law, as amended, foreign enterprises with *de facto* management located in the PRC are considered resident enterprises, with their worldwide taxable income normally being subject to the PRC enterprise income tax ("EIT") at rate of 25%. It is not entirely clear whether such worldwide taxable income would include dividends received from other PRC resident enterprises. In April 2009 and December 2017, SAT further specified certain criteria for the determination of "*de facto* management" of foreign enterprises that are controlled by PRC enterprises, but no official implementation rules have been issued regarding the determination of "*de facto* management" for foreign enterprises that are not controlled by PRC enterprises. Therefore, it remains unclear how the PRC tax authorities will treat an overseas enterprise controlled by another overseas enterprise and ultimately controlled by PRC individual residents. Since some members of our management are located in the PRC, we cannot assure you that we will not be considered a PRC "resident enterprise" by the PRC tax authorities and that we will not be subject to EIT at a rate of 25% on our worldwide taxable income. If we were treated

as such a PRC resident enterprise under PRC tax laws, we could face adverse tax consequences. In addition, if we were a PRC “resident enterprise,” interest on the Notes may be regarded as being derived from sources within the PRC and we may be obligated to withhold PRC tax of up to 10% on payments of interest on or in respect of the Notes to investors that are non-resident enterprises (or at a rate of up to 20%, in the case of payments to non-resident individuals). If we failed to do so, we could be subject to fines and other penalties. In addition, if we are required under the PRC tax laws to withhold PRC tax on our interest paid to our non-resident noteholders who are “non-resident enterprises or non-resident individuals,” we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. Furthermore, if we were treated as a PRC tax resident enterprise, any gain realized by a non-resident enterprise or non-resident individuals from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC tax (or a 20% PRC tax, in the case of non-resident individuals).

Any PRC tax liability of Noteholders as described above may be reduced under applicable tax treaties.

Fluctuation of the Renminbi may adversely affect our operations and financial results

All of our sale proceeds and expenses are denominated in Renminbi, a currency not freely convertible into other currencies. The value of the Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a managed band against a basket of foreign currencies. Currently, the Renminbi can fluctuate against the U.S. dollar by up to 2.0% above or below the central parity rate published by PBOC. In August 2015, the PBOC moved to devalue the Renminbi against the U.S. dollar and announced a policy change allowing a more market-based determination of the official fixing rate. Following such announcement, the Renminbi depreciated significantly against the U.S. dollar. The Renminbi experienced further fluctuations in value against the U.S. dollar in 2016. As a result, our exchange loss experienced fluctuations in 2017, 2018, 2019 and the six months ended June 30, 2020. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible, in the future, in which case, the Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency. Since our income and profits are primarily denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of the Renminbi will also affect the amount of our foreign debt service in Renminbi terms, since we have to convert the Renminbi into foreign currencies to service our indebtedness in foreign currency.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and

effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

We are subject to PRC government controls on currency conversion

We receive substantially all of our revenue in Renminbi which is currently not a freely convertible currency. A portion of our revenue must be converted into other currencies in order to meet our foreign currency obligations including payment of declared dividends to our shareholders.

Subject to certain procedural requirements under existing foreign exchange regulations in the PRC, the Company and our PRC subsidiaries are generally able to undertake current account foreign exchange transactions without prior approval from SAFE. However, the PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends (which would be funded by Renminbi but paid in Hong Kong dollars) or other payments to us, or otherwise satisfy their foreign currency denominated obligations, and we, in turn, may be unable to pay dividends to our shareholders, or meet our payment obligations under the Notes. In addition, the PRC government may, at its discretion, take further measures to restrict access to foreign currencies for current account transactions in the future and any such change may also adversely affect our ability, as well as the ability of our PRC subsidiaries, to pay dividends or satisfy other foreign exchange requirements.

Further, approval from appropriate PRC government authorities is required when Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. In addition, restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

The labor contract law and the potential increase in labor costs in the PRC may adversely affect our business and profitability

The labor contract law, which became effective in the PRC on January 1, 2008, and was further revised on December 28, 2012, imposes more stringent requirements on employers in relation to entering into employment contracts with no fixed term, hiring of temporary employees and dismissing employees. In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which came into effect on the same date, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from five to 15 days, depending on their length of service. Employees who agree to waive part or all of their holiday entitlement at the request of their employers must be compensated with three times their normal daily salaries for each day of holiday entitlement being waived. As a result, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future labor or other disputes with our employees could have a material adverse effect on our business, financial condition or results of operations.

The PRC legal system is less developed than legal systems in certain other jurisdictions and embodies inherent uncertainties that could limit the legal protection available to us and to holders of the Notes

As all of our operations are conducted, and substantially all of our assets are located, in the PRC, our business is generally affected by and subject to the PRC legal system and PRC laws and regulations. The PRC legal system is based, in part, on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC

government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, due to the reason that these laws and regulations have not been fully developed, and due to the limited number of published cases and the non-binding nature of prior court decisions, interpretation and enforcement of these PRC laws and regulations involve uncertainties. Interpretations of laws and regulations may differ depending on the way an application or case is presented to a PRC government agent, as well as to which PRC government agent such application or case is being presented. We cannot assure you that we will receive the same, or more favorable, interpretations of laws and regulations as our competitors. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements due to any change in such regulation, we may be subjected to penalties or other enforcement actions by relevant PRC government authorities. In addition, the administration of the NDRC Notice may be subject to a certain degree of executive and policy discretion by the NDRC. However, there is no assurance that we will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC within the prescribed timeframe. The NDRC Notice does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, therefore there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for us, the Notes or the investors in the Notes. There is also no assurance that the registration with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC.

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. Further, the PRC legal system includes restrictions on and penalties, including criminal liability, relating to various activities that may not have appeared to violate any policies or rules at the time such activities were undertaken, or which may cause us to be deemed in violation of certain policies or rules based on the actions of our counterparties in various transactions, even if we were not aware of whether our counterparties were acting in compliance with applicable PRC laws and regulations. As a result, we may not be aware of actual or deemed violations of such policies and rules until some time after such violations take place. Furthermore, any litigation we undertake in the PRC, regardless of its outcome, may be protracted and result in substantial cost to us and diversion of both our resources and management attention.

It may be difficult to effect service of process upon us or our directors or senior officers who reside in China or to enforce against us or them in China any judgments obtained from non-PRC courts

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside in the PRC, and the assets of our directors and officers may also be located in the PRC. As a result, it may be difficult or impossible to effect service of process outside the PRC upon us or our directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of some other requirements. Our PRC legal advisor has advised us that the PRC does not have treaties providing for the reciprocal acknowledgement and enforcement of judgments of courts with Japan, the United Kingdom, the United States or most other Western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, the prospects for the recognition and enforcement in the PRC or Hong Kong of judgments of a court in non-PRC jurisdictions are uncertain.

RISKS RELATING TO THE NOTES

We are a holding company, and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries

We are a holding company with no material operations. We conduct our operations primarily through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, the Notes will not be guaranteed by certain existing Offshore Subsidiaries and under the terms of the Indenture, subject to certain conditions, the Company may designate any Offshore Subsidiary (including a Subsidiary Guarantor) as a Designated Offshore Non-Guarantor Subsidiary which would allow, in the case of a Subsidiary Guarantor, for the Subsidiary Guarantee to be released, or in the case of a new offshore Restricted Subsidiary, such Restricted Subsidiary not to provide a Subsidiary Guarantee or JV Subsidiary Guarantee. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Existing Offshore Non-Guarantor Subsidiaries and may be held by JV Subsidiary Guarantors or Designated Offshore Non-Guarantor Subsidiaries in the future. Although the percentage of our total consolidated assets that can be held by Offshore Non-Guarantor Subsidiaries is limited as described under “Description of the Notes — The Subsidiary Guarantees Offshore Non-Guarantor Subsidiaries,” the Notes are not guaranteed by the Offshore Non-Guarantor Subsidiaries and the percentage of our total consolidated assets that can be held by such Offshore Non-Guarantor Subsidiaries could increase over time and represent a significant portion of our total consolidated assets. The Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any), as the case may be, will depend upon our receipt of dividends from our subsidiaries.

Creditors, including trade creditors of our Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, will have a claim on the Non-Guarantor Subsidiaries’ assets prior to the claims of the holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of June 30, 2020, indebtedness of our Non-Guarantor Subsidiaries constituted a large portion of our total borrowings as described under “Description of Other Material Indebtedness.” The Notes and the Indenture do not restrict the ability of our subsidiaries to incur certain categories of indebtedness. In addition, our secured creditors and those of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) have priority as to our assets and the assets of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) securing the related obligations over claims of the holders of the Notes.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee (a “JV Subsidiary Guarantee”) following the sale or issuance to a third party of a 20.0% or more equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total bank and other borrowings, excluding senior notes and domestic bonds, as of December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB12,631.5 million, RMB20,132.0 million, RMB21,260.3 million (US\$3,009.2 million) and RMB23,242.7 million (US\$3,289.8 million), respectively. As of June 30, 2020, our outstanding senior notes and domestic bonds amounted to RMB22,265.1 million (US\$3,151.4 million).

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indenture governing the Notes, the Existing Notes and other financial agreements restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. For example, under the Notes, we may incur additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Consolidated Fixed Charges comprises of Consolidated Interest Expense and dividends paid on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary. Because our definition of Consolidated Interest Expense, with respect to interest accruing on indebtedness of any person other than the Company or any Restricted Subsidiary, only includes interest that has become due and payable by the Company or any Restricted Subsidiary, our Consolidated Fixed Charges would be substantially lower, and therefore our ability to incur additional debt under such covenant could be substantially larger, when compared to other similarly situated PRC high yield issuers whose covenant typically includes such interest regardless of whether it has become due and payable by the Company or any Restricted Subsidiary or not. Because our definition of Consolidated EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant, could be substantially larger when compared to other similarly situated PRC-based issuers of high-yield bonds whose covenant does not typically include unrealized gains in the calculation of their respective consolidated EBITDA. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes.

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

The terms of the Notes permit us to engage in businesses that may not be related to our real estate business

The Indenture governing the Notes will not restrict us and our Restricted Subsidiaries from expanding into businesses that we are not currently engaged in. This gives us the flexibility of potentially diversifying into other businesses, even though we do not have a concrete diversification plan at the moment. Subject to certain restrictions, we may also make minority investments in connection with such diversification. If we expand into new businesses, we will be exposed to risks that are different from those we have faced in the past.

Our subsidiaries are subject to restrictions on the payment of dividends

As a holding company, we depend on the receipt of dividends from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes and the Existing Notes. The ability of our subsidiaries to pay dividends to their shareholders may be materially weakened due to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the loans or debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. Further, certain loan agreements in relation to project loans obtained by our PRC subsidiaries from PRC lender banks contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. Although such project loans typically do not require requisite consent or notice from the lender bank, these restrictions could have a negative impact on the calculation of our Consolidated EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes, the Existing Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

PRC laws and regulations permit payment of dividends only out of net profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. In practice, our PRC subsidiaries may pay dividends once a year at the end of each financial year. Some of our PRC subsidiaries are also subject to certain restrictions on dividend distribution under their loan agreements with certain PRC banks. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent

company is incorporated that specifically exempts or reduces such withholding tax. Currently, there is no such treaty between the PRC and the British Virgin Islands, where substantially all of our non-PRC subsidiaries are incorporated. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and a beneficial owner holding a 25% or more interest in the PRC enterprise directly, such withholding tax rate may be lowered to 5%. However, according to the notice issued by SAT on February 3, 2018 regarding the recognition of “beneficial owner” in tax treaties, tax treaty benefits may be denied to “conduit” or shell companies that have no business substance. Therefore, it is unclear whether dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries, which hold the equity interests in our PRC subsidiaries, will continue to enjoy the 5% PRC tax rate. As a result of such limitations, dividend payments from our PRC subsidiaries may not be sufficient to meet our payment obligations under the Notes or to satisfy the obligations of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), as the case may be, and there could be material limitations on our ability to repay the principal of the Notes at maturity or upon any early redemption.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), as the case may be.

Our remittance of offshore funds into the PRC is subject to approval by the PRC government, as a result of which we may encounter delays in respect of the use of, or may not be able to use for our intended purposes, the net proceeds from this offering

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. In addition, the Notice on Further Strengthening the Regulation on Approval and Supervision of Foreign Direct Investment in Real Estate Industry in the PRC (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) jointly issued by MOFCOM and SAFE on May 23, 2007, and amended on October 28, 2015, and the Notice regarding Promulgation of Administrative Measures on Foreign Debt Registration (國家外匯管理局關於發佈〈外債登記管理辦法〉的通知) issued by SAFE on April 28, 2013, which became effective on May 13, 2013 and amended on May 4, 2015 and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (外債登記管理操作指引) indicate that SAFE would not process any foreign debt registration or settlement of foreign exchange for foreign debt for foreign invested enterprises in the real estate industry that was approved by the local office of MOFCOM and registered with MOFCOM after June 1, 2007 or that fails to acquire a land use right certificate or fails to make the capital fund of its development project reach 35% of the total investments of such project. Foreign invested-enterprises include joint ventures and wholly foreign owned enterprises established in China, such as most of our PRC subsidiaries. Therefore, the proceeds of the current offering that will be used for land acquisitions and developments in China practicably may only be transferred to our PRC subsidiaries as equity investments. Any transfer of the proceeds to our PRC subsidiaries in the form of loans will be subject to the restrictions on foreign invested real estate enterprises as imposed by the foreign debt registration rules. Without having the flexibility to transfer funds to our PRC subsidiaries as loans, we cannot assure you that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes or on a redemption date or the maturity date to pay the principal of the outstanding Notes.

Further, according to the PBOC Notice on the Matters in Connection with Macro Prudential Management of Cross-border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) issued on and implemented from January 11, 2017 (the “PBOC Notice on Macro Prudential Management of Cross-border Financing”), the cross-border financing by a PRC

domestic entity (i.e. the borrowing of RMB or foreign exchange debts by such PRC domestic entity from non-resident entities) shall be subject to the Cross-border Financing Risk-weighted Balance Amount calculated with the elements as listed in the PBOC Notice on Macro Prudential Management of Cross-border Financing; and such PRC entity (provided that it is not a financial institution) shall file registration in respect of such foreign debts within the Capital Account Information System maintained by SAFE after the execution of the cross-border financing agreement(s) (but in no event later than 3 working days before the drawdown date) and no approvals for foreign debts borrowing from PBOC or SAFE will be required. The PBOC Notice on Macro Prudential Management of Cross-border Financing has granted a one-year transitional period (starting from the date of the PBOC Notice on Macro Prudential Management of Cross-border Financing) for foreign invested entities, during which the foreign invested entities may choose to be subject to either the new foreign debts management as provided under the PBOC Notice on Macro Prudential Management of Cross-border Financing or the existing foreign debts management before the implementation of the PBOC Notice on Macro Prudential Management of Cross-border Financing; and after such one-year transitional period, PBOC and SAFE may otherwise determine the applicable cross-border financing management for the foreign invested entities.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and registration with MOFCOM, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with this regulation.

Furthermore, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy, or that prevent us from deploying, in China the funds raised outside of China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner or at all.

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

The Notes are denominated in U.S. dollars while substantially all of our turnover is generated by our PRC operating subsidiaries and is denominated in Renminbi. Pursuant to reforms of the exchange rates system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy. On June 19, 2010, the PBOC announced its intention to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar or other foreign currency. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 31.3% from July 21, 2005 to October 19, 2012, according to rates published by Bloomberg. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. On August 11, 2015, to improve the central parity quotations of Renminbi against the U.S. dollar, the PBOC authorized market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on August 11, 2015, Renminbi depreciated significantly against the U.S. dollar. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented, it is possible that they may result in a devaluation of the Renminbi against the U.S. dollar, in which case our financial condition and results of operations could be adversely affected because of our U.S. dollar and H.K. dollar denominated indebtedness and other obligations. Such devaluation could also adversely affect the value, translated or converted to U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. We have in the past entered into various cross currency swap contracts in order to manage foreign currency risk. Following the offering of the Notes, we may enter into further foreign exchange or interest rate hedging agreements in respect of our U.S. dollar denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under such agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. Each of the Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event

We must offer to purchase the Notes and the Existing Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest. See “Description of the Notes.”

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes and the Existing Notes. Our failure to make the offer to purchase or purchase the outstanding Notes and the Existing Notes would constitute an Event of Default under the Notes and the Existing Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods.

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

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

In the event we are treated as a PRC “resident enterprise” under the PRC EIT Law as described above, we may be required to withhold PRC tax on interest paid to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such Additional Amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes — Redemption for Taxation Reasons,” in the event we are required to pay Additional Amounts as a result of certain changes in or interpretations of tax

law, or the stating of an official position with respect thereto, including change in law or stating of an official position that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest and any Additional Amounts.

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

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property developments jointly with third parties, including other PRC property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications, including, among others, that we may, subject to certain conditions, make investments in any Unrestricted Subsidiaries and minority owned joint ventures up to an aggregate amount equal to 30% of our total assets, without satisfying the Fixed Charge Coverage Ratio requirement (provided that the Existing Notes have been fully redeemed or similarly amended to provide for such flexibility). See “Description of the Notes.”

The terms of the Notes permit us to designate entities as Unrestricted Subsidiaries in connection with any spin-off listing, and investments we retain in such Unrestricted Subsidiaries will not constitute Restricted Payments upon such designation

As we establish alternative revenue sources and diversify our business, we may spin off non-core businesses in the future as we desire. Subject to certain restrictions, in connection with a spin-off listing of such businesses, the terms of the Notes permit us to designate such relevant subsidiaries, or the Qualified Spin off Group, as Unrestricted Subsidiaries, and any interests we retain in such entities will not constitute Restricted Payments upon such designation. See “Description of the Notes — Definitions — Permitted Investment.” The effects of any such designation, if applicable, include, but are not limited to, that:

- any entity so designated as an Unrestricted Subsidiary will no longer be subject to the covenants under the Indentures;
- the Subsidiary Guarantees of any entity so designated as an Unrestricted Subsidiary may be released, and the shares of such entity previously pledged to the Shared Security Trustee for the benefit of the holders of the Notes and other Existing Pari Passu Secured Indebtedness may be released; and
- interest expenses on Indebtedness of any entity so designated as an Unrestricted Subsidiary will not be included in the calculation of our Consolidated Interest Expense, other than such interest expenses on Indebtedness that is Guaranteed by the Company or a Restricted Subsidiary.

In addition, the terms of the Notes provide us with additional flexibility to distribute the shares of such Unrestricted Subsidiaries without having such distribution constituting a Restricted Payment. See “Description of the Notes — Certain Covenants — Limitation on Restricted Payments.”

The terms of the Notes permit us to pay substantial amount of dividends

We pay dividends to our shareholders from time to time. Under the Indenture, any such dividend payment will be a “Restricted Payment,” which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio and have sufficient headroom under the “Restricted Payment” covenant. However, such restriction is subject to important exceptions and qualifications. Under the terms of the Notes, we may pay dividends on our common stock in an aggregate amount up to 25.0% of our profit for the year without satisfying

the Fixed Charge Coverage Ratio or deducting the same from the headroom under the “Restricted Payment” covenant. With such an exception (provided that the Existing Notes have been fully redeemed or similarly amended to provide for such flexibility), we may be able to pay substantial amount of dividends even when we are highly leveraged, which may materially and adversely affect our ability to service our indebtedness, including the Notes. See “Description of the Notes.”

The Notes are subject to optional redemption by us

As set forth in “Description of the Notes — Optional Redemption,” the Notes may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market value of the Notes. During any period when we may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may redeem the Notes when the cost of borrowing is lower than the interest rate on the Notes. In such case, 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. It may therefore cause a negative financial impact on the holders of the Notes. Potential investors should consider reinvestment risk in light of other investments available at that time.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy laws or those of other jurisdictions

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, may involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States bankruptcy law. In addition, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) are incorporated in the British Virgin Islands and Hong Kong and the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the bankruptcy laws of the United States or other jurisdictions with which the holder of the Notes are familiar.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries receive substantially all of their revenues in Renminbi. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid). Pursuant to the EIT Law and its implementation rules, dividends distributed by our PRC subsidiaries to the Company or our non-PRC subsidiaries may be subject to a withholding tax of 5% for enterprises incorporated in Hong Kong and 10% for enterprises incorporated outside of Hong Kong if we or our non-PRC subsidiaries, as the case may be were deemed to be a “non-resident enterprise.” According to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (Hui Fa [2015] No.13), dated February 13, 2015, effective from June 1, 2015 and amended on December 30, 2019, our PRC subsidiaries can remit the foreign exchange including the dividends out of PRC at one of banks of at the place of incorporation once the relevant the foreign exchange registration has been made with such bank. Although under the Notice regarding Promulgation of Administrative Measures on Foreign Debt Registration (國家外匯管理局關於發佈〈外債登記管理辦法〉的通知) issued by SAFE on April 28, 2013, which became effective on May 13, 2013 and amended on May 4, 2015, and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (外債登記管理操作指引), we can no longer make shareholder loans to our PRC subsidiaries, we have in the past made shareholder loans to certain PRC subsidiaries to finance their operation. If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, including any failure to obtain the approval of SAFE of the

registration of the relevant intercompany loans or the payments under such loans, such PRC subsidiary would be unable to pay us interest and principal, when due, on the relevant intercompany loans, which could affect our ability to satisfy our obligations under the Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture governing the Notes, there could be a default under the terms of these agreements or the Indenture governing the Notes, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture governing the Notes and the indentures governing the Existing Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Notes and the Existing Notes, or result in a default under our other debt agreements, including the indentures governing the Notes and the Existing Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The Indenture governing the Notes includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of the Company or any Subsidiary Guarantor;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although application will be made to the HKSE for the listing and quotation of the Notes on the HKSE, we cannot assure you that we will obtain or be able to maintain a listing on the HKSE, or that, if listed, a liquid trading market will develop. If such a market were to develop, the Notes could trade at prices that may be higher or lower the initial issue price depending on many factors, including prevailing interest rates, our Group's operations and the market for similar securities. Further, the Notes may be allocated to a limited number of investors, in which case liquidity may be limited. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. The Initial Purchasers may subsequently elect to sell any Notes purchased by it at varying prices which may differ from the issue price of the Notes as set forth in this offering memorandum. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your 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. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes and our corporate rating may be lowered or withdrawn in the future

We have been assigned a long-term corporate rating of "B+" by Standard & Poor's Rating Services, a rating of "B1" by Moody's Investors Service and a rating of "BB-" by Fitch Ratings Ltd. The Notes are expected to be rated "BB-" by Fitch Ratings Ltd. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that 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. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute "connected transactions" under the Listing Rules will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant

Our shares are listed on the HKSE and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand, is a "connected transaction" that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of "connected person" also captures "associates," which include, among others, (a) any subsidiary of such "connected person," (b) any holding company of such "connected person" and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The "Limitation on Transactions with Shareholders and Affiliates" covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be

connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers' certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals of new investments, strategic alliances or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisors

Facts and statistics in this offering memorandum relating to China's economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that the facts and statistics herein are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from GAAP in certain other countries.

We will follow the applicable corporate disclosure standards for debt securities listed on the HKSE, which standards may be different from those applicable to debt securities listed in certain other countries

We will be subject to reporting obligations in respect of the Notes to be listed on the HKSE. The disclosure standards imposed by the HKSE may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global note representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. The common depository for Euroclear and/or Clearstream will be the sole registered holder of the global notes. Accordingly, you must rely on the procedures of Euroclear or Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through

which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through the relevant clearing system. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See “Description of the Notes — Book-Entry; Delivery and Form.”

RISKS RELATING TO THE SUBSIDIARY GUARANTEES, JV SUBSIDIARY GUARANTEES AND THE COLLATERAL

Our initial Subsidiary Guarantors do not currently have significant operations

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Therefore, almost all of our revenue and income (as shown in our consolidated financial information included elsewhere in this offering memorandum) are attributed to our PRC operating subsidiaries and any contribution from direct operations of the Subsidiary Guarantors (or JV Subsidiary Guarantors) are immaterial. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain of our offshore subsidiaries upon issuance. In addition, certain of our future offshore subsidiaries will not be required to guarantee the Notes if the consolidated assets of all our offshore subsidiaries that do not guarantee the Notes (other than Exempted Subsidiaries and Listed Subsidiaries) do not exceed 25% of our total assets. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of such Non-Guarantor Subsidiaries. See “Description of the Notes — The Subsidiary Guarantees and the JV Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. In addition, the Collateral will not include the capital stock of our existing or future PRC subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries and Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

Under the terms of the Notes, the Company may designate any Offshore Subsidiary (including a Subsidiary Guarantor) as a Designated Offshore Non-Guarantor Subsidiary which would allow, in the case of a Subsidiary Guarantor, for the Subsidiary Guarantee to be released, or in the case of a new offshore Restricted Subsidiary, such Restricted Subsidiary not to provide a Subsidiary Guarantee or JV Subsidiary Guarantee, if at any time of determination, the total consolidated assets of all Offshore Non-Guarantor Subsidiaries would not exceed 25.0% of Total Assets, and such designation would not cause a Default.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a 20% or more equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable bankruptcy, insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees

Under bankruptcy laws, fraudulent transfer laws and insolvency laws in the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- (1) incurred the debt with the intent to defraud creditors (whenever the transaction took place, and irrespective of insolvency);
- (2) put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given; or
- (3) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor.

In the case of (2) and (3) above, a guarantee will only be voidable if it was entered into at a time when the guarantor was insolvent, or if it became insolvent as a consequence of doing so. Insolvency in this context under British Virgin Islands law means generally that the guarantor is unable to pay its debts as they fall due. Additionally, a guarantee will only be voidable if it is given within the six-month period preceding the commencement of liquidation or within the two-year period, if the guarantor and the beneficiary are connected entities.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any), as the case may be, will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or the JV Subsidiary Guarantors (if any) without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, voidable under such applicable insolvency or fraudulent transfer laws. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees.

If a court voided a Subsidiary Guarantee or a JV Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor or the JV Subsidiary Guarantor, as the case may be, or held the Subsidiary Guarantee or the JV Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and would solely be creditors of us and any Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, whose guarantee was not voided or held unenforceable. We cannot assure you that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The charge of certain Collateral may in certain circumstances be voidable

The charge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the British Virgin Islands at any time within six months of the creation of the charge or, under some circumstances, within a longer period. Charges of capital stock of future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the charge of certain Collateral may be voided based on the analysis set forth under “— The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable bankruptcy, insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

If the charges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes

The Collateral will consist only of the capital stock of the Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and the net proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be charged as additional Collateral.

The ability of the Trustee or the Shared Security Trustee, on behalf of the holders of the Notes, the Existing *Pari Passu* Secured Indebtedness and other Permitted *Pari Passu* Secured Indebtedness (if any) to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee, the Shared Security Trustee or holders of the Notes will be able to enforce the security interest.

Efforts to foreclose on the Collateral may encounter legal challenges in multiple jurisdictions, which may result in delayed enforcement or which may render enforcement unreasonably expensive under the circumstances. If the Trustee, the Shared Security Trustee or the holders of Notes do successfully foreclose on the Collateral, they will obtain control over the Subsidiary Guarantors and, by implication, indirect control over persons controlled by the Subsidiary Guarantors, including our PRC subsidiaries. Nevertheless, as a practical matter it may prove difficult for the Trustee, the Shared Security Trustee or the holders of Notes to successfully replace the managers and directors of, cause the direction of the management, affairs or policies of, or otherwise exert control over, our PRC subsidiaries following enforcement of the Collateral.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By their nature, some or all of the Collateral, in particular, the capital stock of the existing or any future Subsidiary Guarantor, may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the holders of the Existing *Pari Passu* Secured Indebtedness and the holders of any other Permitted *Pari Passu* Secured Indebtedness. Accordingly, in the event of a default on the Notes, the Existing *Pari Passu* Secured Indebtedness or any other Permitted *Pari Passu* Secured Indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to

satisfy the Company's and each of the Subsidiary Guarantor's obligations under the Notes, the Existing *Pari Passu* Secured Indebtedness, the Permitted *Pari Passu* Secured Indebtedness and the Subsidiary Guarantees of the Subsidiary Guarantors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

The pledge of certain Collateral may be released under certain circumstances

In the event the conditions applicable to the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee are satisfied, we are permitted to release the pledge of the shares granted by such Subsidiary Guarantor, as well as the pledge of the shares granted by the subsidiaries of such Subsidiary Guarantor. We are only required to deliver a replacement share pledge for the shares that we continue to hold in such JV Subsidiary Guarantor (but not the subsidiaries of such JV Subsidiary Guarantor) following the sale of the equity interests in such Subsidiary Guarantor. As a result, in the event we sell non-controlling interests in our Subsidiary Guarantors or otherwise create JV Subsidiary Guarantors in accordance with the terms of the Indenture, the Collateral will be reduced in value and scope, and holders of the Notes would be subject to increased risks.

The Intercreditor Agreement may impair the ability of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors to pay amounts due under the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees and may also limit the rights of the Noteholders to the Collateral

The Shared Security Trustee is required to take action to enforce the Collateral in accordance with the instructions of the secured creditors given under Intercreditor Agreement. Any enforcement action taken by the Shared Security Trustee will adversely affect our entitlement to receive proceeds from the Collateral, which will, in turn, have an adverse impact on the Company's ability to fulfill its payment obligations under the Notes. Further, our ability to pay under the Subsidiary Guarantees will be adversely affected.

The ability of the Noteholders to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Shared Security Trustee is permitted to take enforcement actions. If an event of default occurs under the Notes, the holders of the Notes holding 25% of the outstanding amount of the Notes must decide whether to take any enforcement action and thereafter, through the Trustee, may instruct the Shared Security Trustee to take such enforcement action. In addition, by virtue of the instructions given to the Shared Security Trustee described above, actions may be taken in respect of the Collateral that may be adverse to you. In such event, the only remedy available to the Noteholders would be to sue for payment on the Notes, the Subsidiary Guarantees, the JV Guarantees and the Collateral. For a description on the Intercreditor Agreement, see "Description of the Notes — Security — Intercreditor Agreement."

The Shared Security Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Intercreditor Agreement. Under certain circumstances, the Shared Security Trustee may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the holders of the Notes. The Shared Security Trustee will not be under any obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the holders of the Notes, the holders of the Existing *Pari Passu* Secured Indebtedness and the holders of any Permitted *Pari Passu* Secured Indebtedness, unless such holders have offered to the Shared Security Trustee indemnity and/or security satisfactory to the Shared Security Trustee against any loss, liability or expense.

Security over the Collateral will not be granted directly to the holders of the Notes, and the Collateral will generally be shared with creditors under certain other financings

Security over the Collateral for the obligations of the Company under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Shared Security Trustee on behalf of the Trustee and the holders of other secured obligations (or their representatives) that are party to the Intercreditor Agreement. As a consequence, holders of the Notes will not have direct security and will not be entitled to take

enforcement action in respect of the security for the Notes, except through the Shared Security Trustee, which has agreed to apply any proceeds of enforcement on such security towards the obligations under the Notes and such other secured obligations.

In addition, the Indenture provides that the Collateral will be shared equally and ratably with the holders of all other future Permitted Pari Passu Secured Indebtedness. For a further discussion of the Intercreditor Agreement, see “Description of the Notes — Security — Intercreditor Agreement.” Therefore, the full value of the Collateral will not be available to satisfy the Noteholders’ claims.

The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral *pari passu* with the holders of the Notes. See “Description of the Notes — Security — Permitted Pari Passu Secured Indebtedness” for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the Noteholders’ claims, which could have a material adverse effect on the ability of the Noteholders to recover sufficient proceeds to satisfy their claims under the Notes.

USE OF PROCEEDS

We intend to use the net proceeds mainly for refinancing certain of our existing offshore indebtedness which will become due within one year.

EXCHANGE RATE INFORMATION

PRC

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC announces the closing price of a foreign currency traded against the Renminbi in the interbank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. On May 18, 2007, PBOC enlarged the floating band for the trading prices in the interbank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. The floating band was further widened to 1.0% on April 16, 2012 and to 2.0% on March 17, 2014. In August 2015, the PBOC moved to devalue the Renminbi against the U.S. dollar and announced a policy change allowing a more market-based determination of the official fixing rate. Following such announcement, the Renminbi depreciated significantly against the U.S. dollar. The PRC government may from time to time make further adjustments to the exchange rate system in the future. The International Monetary Fund announced on September 30, 2016 that the Renminbi joined its Special Drawing Rights currency basket. On May 27, 2017, the authorities indicated publicly that they were "considering" changing the fixing mechanism yet again, to include an undefined "countercyclical mechanism". The addition of a countercyclical mechanism was confirmed in the PBOC's Q22017 Monetary Policy Report (PBOC 2017). On January 9, 2018, PBOC effectively reduced the influence of the "countercyclical factor" to the formula it uses to determine the mid-point reference rate for the yuan's exchange rate against the U.S. dollar.

The following table sets forth the exchange rates between Renminbi and U.S. dollars as set forth in the H.10 statistical release of the U.S. Federal Reserve Board for the periods indicated:

Period	Exchange 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	6.6090	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1348	6.5250
August	6.8647	6.9310	6.9799	6.8647
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November	6.5750	6.6044	6.6899	6.5556
December	6.5250	6.5393	6.5705	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March (through March 8, 2021)	6.4960	6.4736	6.4960	6.4648

Note:

(1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages were calculated by using the average of the daily rates during the relevant month.

Hong Kong

The H.K. dollar is freely convertible into the U.S. dollar. Since 1983, the H.K. dollar has been linked to the U.S. 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 July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the H.K. dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. The Hong Kong government has indicated its intention to maintain the link at that rate. Under the Basic Law, the H.K. dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the H.K. dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link at HK\$7.80 to US\$1.00 or at all.

The following table sets forth the exchange rates between H.K. dollars and U.S. dollars as set forth in the H.10 statistical release of the U.S. Federal Reserve Board for the periods indicated:

Period	Exchange Rate			
	Period End	Average ⁽¹⁾	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	7.7927	7.7500
August	7.7502	7.7502	7.7506	7.7498
September	7.7500	7.7500	7.7504	7.7499
October	7.7548	7.7503	7.7548	7.7498
November	7.7508	7.7526	7.7552	7.7505
December	7.7534	7.7519	7.7539	7.7505
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March (through March 8, 2021)	7.7642	7.7585	7.7642	7.7562

Note:

(1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages were calculated by using the average of the daily rates during the relevant month.

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents, short-term borrowings, long-term borrowings and capitalization as of June 30, 2020, on an actual basis and on an “as adjusted” basis after giving effect to the Notes and the proceeds therefrom before deducting the underwriting discount and other expenses relating to this offering. The following table should be read in conjunction with the selected consolidated financial and other data and the unaudited consolidated financial statements and related notes included elsewhere in this offering memorandum.

	As of June 30, 2020			
	Actual		As Adjusted	
	RMB'000	US\$'000	RMB'000	US\$'000
Cash and cash equivalents⁽¹⁾	<u>20,738,069</u>	<u>2,935,283</u>	<u>22,857,599</u>	<u>3,235,283</u>
Short-term borrowings⁽²⁾⁽⁴⁾				
Bank loans — secured	8,090,911	1,145,194	8,090,911	1,145,194
Bank loans — unsecured	35,556	5,032	35,556	5,032
Other loans — secured	1,408,341	199,338	1,408,341	199,338
Senior notes and domestic bonds	<u>11,184,977</u>	<u>1,583,131</u>	<u>11,184,977</u>	<u>1,583,131</u>
Total short-term borrowings	<u>20,719,785</u>	<u>2,932,695</u>	<u>20,719,785</u>	<u>2,932,695</u>
Long-term borrowings⁽³⁾⁽⁴⁾				
Bank loans — secured	12,320,224	1,743,815	12,320,224	1,743,815
Bank loans — unsecured	320,007	45,294	320,007	45,294
Other loans — secured	1,067,709	151,124	1,067,709	151,124
Senior notes and domestic bonds	11,080,123	1,568,290	11,080,123	1,568,290
Notes to be issued	—	—	2,119,530	300,000
Total long-term borrowings	<u>24,788,063</u>	<u>3,508,523</u>	<u>26,907,593</u>	<u>3,808,523</u>
Total equity				
Issued capital	361,497	51,166	361,497	51,166
Reserves	18,197,431	2,575,679	18,197,431	2,575,679
Non-controlling interests	<u>11,512,721</u>	<u>1,629,520</u>	<u>11,512,721</u>	<u>1,629,520</u>
	<u>30,071,649</u>	<u>4,256,365</u>	<u>30,071,649</u>	<u>4,256,365</u>
Total capitalization	<u>54,859,712</u>	<u>7,764,888</u>	<u>56,979,242</u>	<u>8,064,888</u>

Notes:

- (1) Cash and cash equivalents exclude restricted cash of RMB4,035.8 million and pledged deposits of RMB208.0 million.
- (2) Short-term borrowings include the current portion of long-term borrowings.
- (3) Long-term borrowings exclude the current portion of long-term borrowings.
- (4) See “Description of Other Material Indebtedness.”
- (5) Total capitalization equals to total long-term borrowings plus total equity.

Since June 30, 2020, we continue to enter into short-term and long-term borrowings in the ordinary course of business, such as construction and project loans. In addition, we may from time to time enter into other financing arrangements, such as senior notes, corporate bonds, securitization arrangements, offshore facilities, trust financing arrangements and perpetual loan arrangements. Subsequent to June 30, 2020, we issued the July 2020 Domestic Bonds, the October 2020 Domestic Bonds, the November 2020 Notes and the February 2021 Notes. We have repaid RMB2.0 billion of the domestic corporate bond due 2020 in October 2020, and RMB1.5 billion of the domestic corporate bond due 2020 in December 2020 issued by Xiamen Zhongjun Industrial Co., Ltd., our wholly owned subsidiary. We have also completed the redemption of all outstanding January 2019 Notes in full at their principal amount. See “Description of Other Material Indebtedness.” The capitalization table above has not been adjusted to reflect such indebtedness incurred subsequent to June 30, 2020.

Except as otherwise disclosed in this offering memorandum, there have been no material changes in our capitalization and indebtedness since June 30, 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected consolidated financial and other data. The selected consolidated financial information and other data as of and for each of the fiscal years ended December 31, 2017, 2018 and 2019 (except for EBITDA data) are derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The selected consolidated financial information and other data as of and for the six months ended June 30, 2019 and 2020 (except for EBITDA data) are derived from our unaudited consolidated financial statements included elsewhere in this offering memorandum. Our unaudited consolidated financial statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. Such unaudited consolidated financial statements should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending December 31, 2020.

The financial information has been prepared and presented in accordance with HKFRS, which differ in certain material respects from GAAP in certain other countries. The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial information and the related notes included elsewhere in this offering memorandum.

Selected Consolidated Statement of Profit or Loss and Other Comprehensive Income and Other Financial Data

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	2020
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Revenue	16,105,245	17,782,886	21,369,802	3,024,699	10,422,829	15,135,207	2,142,250
Cost of sales	<u>(10,620,061)</u>	<u>(11,636,290)</u>	<u>(15,477,931)</u>	<u>(2,190,759)</u>	<u>(7,412,249)</u>	<u>(10,910,258)</u>	<u>(1,544,247)</u>
Gross profit	5,485,184	6,146,596	5,891,871	833,940	3,010,580	4,224,949	598,003
Other income and gains	122,812	386,637	1,155,838	163,598	759,796	624,719	88,423
Changes in fair value of investment properties, net ⁽¹⁾	1,262,744	1,082,540	1,404,861	198,845	732,250	462,241	65,426
Selling and marketing expenses	(530,538)	(398,421)	(516,031)	(73,039)	(231,294)	(311,609)	(44,105)
Administrative expenses	(963,431)	(1,298,702)	(1,616,310)	(228,774)	(628,687)	(1,029,044)	(145,652)
Other expenses	(332,561)	—	(92,243)	(13,056)	—	(156,174)	(22,105)
Finance costs	(392,048)	(401,686)	(528,142)	(74,754)	(266,873)	(248,720)	(35,204)
Share of profits and losses of:							
Joint ventures	814,542	513,275	181,599	25,704	(117,468)	16,964	2,401
Associates	(6,062)	22,217	(27,168)	(3,845)	(16,668)	(23,490)	(3,325)
Profit before tax	5,460,642	6,052,456	5,854,275	828,619	3,241,636	3,559,836	503,862
Income tax expense	<u>(2,012,091)</u>	<u>(2,375,633)</u>	<u>(1,830,809)</u>	<u>(259,134)</u>	<u>(1,047,616)</u>	<u>(1,043,197)</u>	<u>(147,655)</u>
Profit for the year/period	<u>3,448,551</u>	<u>3,676,823</u>	<u>4,023,466</u>	<u>569,485</u>	<u>2,194,020</u>	<u>2,516,639</u>	<u>356,207</u>
Other comprehensive income/(loss):							
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:							
Share of other comprehensive income/(loss) of joint ventures	46,017	(13,837)	(97)	(14)	(53)	(3,596)	(509)
Share of other comprehensive income/(loss) of associates	157	(28)	8	1	—	(10)	(1)
Exchange differences on translation of foreign operations	578,541	(486,437)	(307,848)	(43,573)	(52,073)	(405,665)	(57,418)
Release of other reserves upon deemed acquisition of subsidiaries	—	40,539	—	—	—	—	—
Available-for-sale investments:							
Change in fair value	52,051	—	—	—	—	—	—
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	676,766	(459,763)	(307,937)	(43,586)	(52,126)	(409,271)	(57,928)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:							
Gain on property revaluation	82,872	—	—	—	—	—	—
Other comprehensive income/(loss) for the year/period	759,638	(459,763)	(307,937)	(43,586)	(52,126)	(409,271)	(57,928)
Total comprehensive income for the year/period	<u>4,208,189</u>	<u>3,217,060</u>	<u>3,715,529</u>	<u>525,899</u>	<u>2,141,894</u>	<u>2,107,368</u>	<u>298,279</u>
Profit attributable to:							
Owners of the parent	2,840,035	3,385,284	3,510,045	496,815	1,916,809	2,114,397	299,273
Holders of perpetual capital instruments	51,975	58,363	35,408	5,012	31,850	—	—
Non-controlling interests	556,541	233,176	478,013	67,658	245,361	402,242	56,934
	<u>3,448,551</u>	<u>3,676,823</u>	<u>4,023,466</u>	<u>569,485</u>	<u>2,194,020</u>	<u>2,516,639</u>	<u>356,207</u>
Total comprehensive income attributable to:							
Owners of the parent	3,516,512	3,019,205	3,229,686	457,132	1,866,493	1,751,996	247,979
Holders of perpetual capital instruments	51,975	58,363	35,408	5,012	31,850	—	—
Non-controlling interests	639,702	139,492	450,435	63,755	243,551	355,372	50,300
	<u>4,208,189</u>	<u>3,217,060</u>	<u>3,715,529</u>	<u>525,899</u>	<u>2,141,894</u>	<u>2,107,368</u>	<u>298,279</u>
Other financial data							
EBITDA ⁽²⁾	5,353,332	6,337,768	5,956,534	843,093	3,582,285	3,820,649	540,778
EBITDA Margin ⁽³⁾	33.2%	35.6%	27.9%	27.9%	34.4%	25.2%	25.2%

Notes:

- (1) In the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, we recorded changes in fair value of our investment properties. See "Risk Factors — Risks relating to our business — Our profitability may fluctuate substantially due to the periodic reassessment of fair value gains or losses on our investment properties."
- (2) EBITDA consists of profit for the year/period plus capitalized borrowing costs included in cost of sales, finance costs, income tax expense, depreciation, amortization, premium paid on early redemption of senior notes, write down to net realizable value of completed properties held for sale, net (gain)/loss on disposal of investment properties, equity-settled share option expenses, dividend in cash received from joint ventures and associates, provision of major overhauls, net fair value (gain)/loss on financial assets at fair value through profit or loss, impairment of investment in associates, net (gain)/loss on disposal of subsidiaries and gain on disposal of a joint venture and minus positive changes in fair value of investment properties, fair value (gain)/loss of derivative financial instruments — transactions not qualifying as hedges, share of profits and losses of joint ventures and associates, net gain on disposal of items of property and equipment and net foreign exchange differences. EBITDA is not a standard measure under GAAP in certain other countries or 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, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our net profit under HKFRS to our definition of EBITDA. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (3) EBITDA margin is calculated by dividing EBITDA by revenue.

Selected Consolidated Statements of Financial Position Data

	As of December 31,				As at June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
ASSETS						
Current assets	41,588,520	62,213,561	96,743,594	13,693,167	107,153,955	15,166,658
Non-current assets	24,586,488	39,277,214	52,638,460	7,450,490	54,428,340	7,703,831
Total assets	<u>66,175,008</u>	<u>101,490,775</u>	<u>149,382,054</u>	<u>21,143,657</u>	<u>161,582,295</u>	<u>22,870,489</u>
LIABILITIES AND EQUITY						
Current liabilities	34,638,461	54,226,395	85,048,704	12,037,863	102,362,800	14,488,514
Non-current liabilities	14,978,677	25,124,973	34,047,163	4,819,063	29,147,846	4,125,610
Total liabilities	<u>49,617,138</u>	<u>79,351,368</u>	<u>119,095,867</u>	<u>16,856,926</u>	<u>131,510,646</u>	<u>18,614,124</u>
Attributable to owners of the parent	12,458,126	15,482,186	17,579,010	2,488,147	18,558,928	2,626,845
Attributable to holders of perpetual capital instruments	700,000	700,000	—	—	—	—
Attributable to non-controlling interests	3,399,744	5,957,221	12,707,177	1,798,584	11,512,721	1,629,520
Total equity	<u>16,557,870</u>	<u>22,139,407</u>	<u>30,286,187</u>	<u>4,286,731</u>	<u>30,071,649</u>	<u>4,256,365</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Consolidated Financial and Other Data" and our consolidated financial statements together with the accompanying notes included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from GAAP in certain other countries.

Unless the context otherwise requires, references to "2017", "2018" and "2019" in this offering memorandum are to our financial years ended December 31, 2017, 2018 and 2019, respectively. References to "associate" or "associates" in this section are to associates as defined in HKFRS.

OVERVIEW

We are a well-known PRC real estate developer headquartered in Shanghai with nationwide operations covering property development, property investment and property management. We were honored as one of the Best 50 Real Estate Developers of China (中國房地產開發企業50強) from 2015 to 2020, one of the Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths (中國房地產上市公司綜合實力50強) from 2015 to 2020, one of the Best 5 China Real Estate Listed Companies of Risk Management and one of Best 10 of Regional Operations of China Real Estate Developers (中國房地產開發企業區域運營10強) from 2015 to 2020 consecutively, according to China Real Estate Research Association, China Real Estate Association and China Real Estate Appraisal Centre. We were also honored as one of the Fortune China 500 (財富中國500強) by the Fortune magazine (《財富》雜誌) from 2016 to 2020 consecutively. We primarily focus on the development of high quality, mid-end to high-end residential real estate projects in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area, the West Taiwan Strait Economic Zone and the Central Western Region. We have historically focused on the West Taiwan Strait Economic Zone and in recent years, expanded into first-tier and quality second-tier cities as well as strong third-tier cities in other parts of China, including Beijing, Tianjin, Shanghai and Hangzhou, and the percentage of our land bank located in the Bohai Rim Economic Zone and Yangtze River Delta Economic Zone in our total land bank continues to increase. As of June 30, 2020, approximately 6.2 million sq.m., or 18.6% of our total land bank, was located in the Bohai Rim Economic Zone; approximately 9.4 million sq.m., or 28.4% of our total land bank, was located in the Yangtze River Delta Economic Zone; approximately 6.0 million sq.m., or 18.2% of our total land bank, was located in the West Taiwan Strait Economic Zone; approximately 8.4 million sq.m., or 25.6% of our total land bank, was located in the Central Western Region; and approximately 3.0 million sq.m., or 9.2% of our total land bank, was located in the Guangdong-Hong Kong-Macao Greater Bay Area.

As of June 30, 2020, we and our joint ventures and associates had a land bank with an aggregate GFA of approximately 33.0 million sq.m., of which approximately 20.1 million sq.m. was attributable to us, comprising:

- (i) investment properties with an aggregate GFA of 1,592,865 sq.m.;
- (ii) completed properties held for sale with an aggregate GFA of 1,028,573 sq.m.;
- (iii) projects under development with an aggregate planned GFA of 9,258,253 sq.m.;
- (iv) projects held for future development with an aggregate planned GFA of 8,388,338 sq.m.; and
- (v) projects held by our JVs and associates with an aggregate planned GFA of 12,758,698 sq.m.

In the six months ended June 30, 2020, we, together with our joint ventures and associates, acquired 10 projects in total with an aggregate above-ground GFA of approximately 3.3 million sq.m., all of which were acquired through bidding. The average land cost was approximately RMB5,853 per sq.m..

Our property development projects are generally situated in prime locations in major cities, as well as areas with natural scenic surroundings and convenient access to transportation. We believe that we have established a reputable brand for developing high quality residential properties and providing premium pre- and post-sales services to our customers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our revenue was RMB16,105.2 million, RMB17,782.9 million, RMB21,369.8 million (US\$3,024.7 million), RMB10,422.8 million and RMB15,135.2 million (US\$2,142.2 million), respectively, and our profit was RMB3,448.6 million, RMB3,676.8 million, RMB4,023.5 million (US\$569.5 million), RMB2,194.0 million and RMB2,516.6 million (US\$356.2 million), respectively. Our shares have been listed on the HKSE since February 5, 2010 under stock code 1966.HK.

We have financed our projects primarily through pre-sale proceeds of our properties, proceeds from bank and other borrowings, and equity and debt issuances. We typically follow a financing model under which our start-up cost is mainly financed by bank and other borrowings as well as contributions and advances from our shareholders and business partners. This financing model supports our projects until the pre-sales stage, when we are able to repay our borrowings with pre-sale proceeds. The following points summarize our main sources of funds for our projects.

- **Pre-sale proceeds of properties.** Pre-sale proceeds are proceeds we receive when we enter into contracts to sell properties prior to their completion.
- **Contributions from business partners to our project companies.** Our non-wholly-owned projects are financed in part through capital contributions and advances from our business partners.
- **Bank and other borrowings.** As of June 30, 2020, we had total bank and other borrowings of RMB23,242.7 million (US\$3,289.8 million). We have obtained project-specific and general bank and other borrowings to finance our projects. Certain of our bank and other borrowing are secured by our buildings, investment properties, prepaid land lease payments, properties under development and completed properties held for sale. We usually repay such borrowings using a portion of the pre-sale proceeds from our properties that relate to the particular loan. For more information please see “— Indebtedness.”
- **Sale of Notes.** We have raised funds from the issuance of senior notes in the past. For more information on our current outstanding senior notes, see “Description of Other Material Indebtedness.”

Going forward, we expect to fund our projects by using a combination of sources, including internally generated cash flow, bank and other borrowings, capital contributions and advances from the business partners of our project companies and proceeds from the Notes and other funds raised from the capital markets from time to time. Our access to funds may be affected by various factors, including the factors discussed under “Risk Factors” and “— Key Factors Affecting Our Results of Operations.”

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below.

General Economic Conditions in the PRC and Government Regulation

We believe that demand for our properties is driven in large part by the overall economic development, the rising level of wages and the standard of living in the PRC. Since the second half of 2008, the global economic slowdown and turmoil in the global financial markets have resulted in an adverse impact on the overall economy of the PRC, including the PRC real estate market, from which our entire revenues are generated. Other recent world events and development, such as Brexit, the trade war between the United States and China, and the COVID-19 pandemic will continue to affect China's economy at the macro level. See "Risk Factors — Risks relating to our business — Any global economic slowdown and financial market turmoil may adversely affect our business, liquidity, financial condition, results of operations and prospects" and "Risk Factors — Risks relating to our business — Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic." The economic conditions and volatility of real estate prices in the PRC may continue to impact our business and results of operations. At the current stage of economic development in the PRC, while the real estate industry is regarded by the PRC government as one of the pillar industries in the PRC, the real estate industry is significantly dependent on the overall economic growth and the resultant consumer demand for residential properties.

PRC governmental policies and measures on property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC central government adjusts its macro-economic control policies to encourage or restrict development in the private real estate sector through regulating, among other things, land supply, pre-sale of properties, land usage, plot ratio, bank financing and taxation. Local government authorities in different areas of the PRC also promulgate local policies with respect to the property development in their jurisdictions. Prior to the second half of 2008, the PRC government had implemented a series of measures to slow down the growth of the economy, including the real estate markets. In the second half of 2008 and in 2009, in view of the economic downturn, the PRC government adopted measures to encourage consumption in the residential real estate market and support real estate developers. Since November 2009, in response to the rise in property prices across the country, the PRC central government and various local governments announced new policies and adopted new measures to curtail speculation in the real estate market, including property purchase restrictions, and imposed more stringent requirements on the payment of land premiums by real estate developers. In March 2015, the PBOC, CBRC and MOHURD jointly issued a notice to lower the minimum down payment to 40% for households that own a residential property and have not paid off their existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve their living conditions, and allow the bank to decide at its own discretion the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower. In the first half of 2016, the PRC government adopted different real estate stimulus policies in different cities with the goal of continuing inventory clearance in the real estate industry. See "Risk Factors — Risks relating to the real estate sector in the PRC — The measures adopted from time to time by the PRC government to regulate the PRC real estate market could slow the industry's rate of growth or cause the real estate market to decline." Such policies boosted the demand for real properties and the real estate prices experienced an increase, especially in first-tier and second-tier cities. The PRC government adopted certain restrictive measures towards the end of 2016 to cool down the real estate industry. The new measures include, among other things, higher minimum down payment requirements, restrictions on purchase of properties and tightened loan policies. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations. See "Industry Overview — Macro-Economic Conditions of the PRC — Key real estate reforms in the PRC" and "Regulation" for more details of the relevant PRC regulations.

As a result of the foregoing, our results of operations are subject to general political, economic, legal and social developments in the PRC, including:

- the performance of China's real estate market, in particular, the supply and demand for private properties, market pricing trends, standard of living, level of disposable income and demographic changes in the PRC;

- the regulatory environment of the PRC, including land grant policies, pre-sale policies, financing policies and tax policies; and
- the political and economic policies of the PRC in general.

See “Risk Factors — Risks relating to the real estate sector in the PRC” and “Risk Factors — Risks relating to the PRC” in this offering memorandum for further discussions of these risks and uncertainties.

Land Acquisition Costs

Our continuing growth will depend in large part on our ability to secure quality land at prices that can yield reasonable returns. One of the key components of our cost of sales is land acquisition costs. In recent years, land acquisition costs have risen as a result of increased demand for properties as well as increasingly intense competition among market participants.

In November 2007, the PRC government introduced regulations to increase the transparency related to the grant of state-owned land use right for residential or commercial property developments through competitive processes, including competitive bidding, public auction or listing-for-sale, administered by local governments. Under such regulations, land use right certificates are no longer separately issued according to the proportion of the land premium paid and, instead, no land use right certificates will be issued before the land premium has been fully paid up pursuant to the land grant contract. Furthermore, in November 2009, the PRC government raised the minimum down-payment of land premium to 50% and required the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. We cannot assure you that the PRC government will not introduce new regulatory measures to further tighten the payment requirements of land premiums or otherwise make it more difficult for us to acquire desirable land. Such change of policy may materially and adversely affect our cash flow and our ability to acquire suitable land for our operations.

Construction Costs

Another key component of our cost of sales is construction costs, which consist of all costs for the design and construction of a project, including primarily payments to contractors who are generally responsible for the procurement of construction materials (including cement and steel). Construction costs of our projects vary not only according to the floor area and height of the buildings, but also according to the geology of the construction site. Historically, construction material costs incurred by our contractors have been the principal driver of the construction costs of our property developments. Construction costs fluctuate as a result of changes in prices of key construction materials such as steel and cement.

As part of our cost control measures, we typically cap the prices of such materials in our construction contracts with our contractors. As a result, we have generally passed on the risk of short-term price fluctuations of our construction materials to our contractors. However, in some cases, the capped prices may be subject to adjustment by mutual agreement between us and our contractors due to a substantial price increase or decrease in certain construction materials; for example, some of our contracts allow price adjustments if the cost of certain construction materials fluctuates by more than a pre-determined percentage. Despite these measures, we are still subject to long-term movements in the prices of construction materials, and our profitability may suffer if we cannot pass on such increased costs to our contractors or customers. Further, we typically pre-sell our properties prior to their completion and we are not able to pass on any increased costs to our customers if construction costs increase subsequent to such pre-sales.

Access to Capital and Cost of Financing

Property development requires substantial capital investment for land acquisition and construction, and it may take many months or years before positive cash flows can be generated from a project. We finance our operations primarily through internally generated

cash flows (including proceeds from the pre-sale and sale of our projects), bank and other borrowings, contributions from shareholders and business partners and proceeds from capital raisings. In 2017, 2018 and 2019 and the six months ended June 30, 2020, our average financing cost was approximately 6.5%, 6.4%, 6.7% and 6.7%, respectively.

Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property development. Please see “Risk Factors” and “Regulation.”

Tax

Enterprise Income Tax (EIT)

Under the EIT Law and its implementation rules, a uniform 25% EIT rate is generally applicable to both foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% EIT rate on their global income. In April 2009 and December 2017, the State Administration of Taxation (“SAT”) further specified certain criteria for the determination of “*de facto management*” of foreign enterprises that are controlled by PRC enterprises, but the interpretation of the term “*de facto management*” of foreign enterprises that are not controlled by PRC enterprises is unclear. Since some members of our management are PRC residents, we may be considered a PRC “resident enterprise”, in which case we would be subject to EIT at a rate of 25% on our worldwide income. According to the special arrangement between Hong Kong and mainland, dividends distributed by our PRC subsidiaries to the Company or our non-PRC subsidiaries may be subject to a withholding tax of 5% for enterprises incorporated in Hong Kong if such enterprises is a beneficial owner holding more than 25% of the share of the PRC subsidiary and 10% for enterprises incorporated outside of Hong Kong if we or our non-PRC subsidiaries, as the case may be, are “non-resident enterprises.” Please also refer to the sections headed “Risk Factors — Risks relating to conducting operations in the PRC — Certain aspects of the treatment of our companies for PRC enterprise income tax purposes are unclear and interest on or in respect of the Notes and gain from the disposition of the Notes may be subject to PRC tax” and “Regulation” of this offering memorandum.

Land Appreciation Tax (LAT)

In 2017, 2018 and 2019 and the six months ended June 30, 2020, we made LAT payments of RMB516.1 million, RMB772.5 million, RMB669.0 million (US\$94.7 million), and RMB420.4 million (US\$59.5 million), respectively, and made provisions for LAT of RMB645.5 million, RMB981.6 million, RMB387.8 million (US\$54.9 million) and RMB182.9 million (US\$25.9 million), respectively. We will estimate and make provision for what we believe to be the full amount of LAT for which we expect to be liable in accordance with relevant PRC tax laws and regulations in the period when the revenue from the related properties has been recognized. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. Although we believe our provisions are made in material compliance with LAT laws and regulations, it may or may not be sufficient to cover future LAT payments. Please also refer to “Risk Factors — Risks relating to our business — The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations.”

Valuation of our Investment Properties

Investment properties are properties held for long-term yields or for capital appreciation or both and are not occupied by us, and consist of land held under operating leases and buildings developed by us. Our investment properties mainly comprise shopping malls, retail shops, carpark spaces, storage and office spaces. In accordance with HKAS 40 *Investment Property* issued by the Hong Kong Institute of Certified Public Accountants, investment properties, including investment properties under construction, may be recognized by using either the fair value model or the cost model. We have chosen to recognize investment properties, including investment properties under construction, as non-current assets at their

fair value, as determined by an independent property valuer, as of each reporting date. We are of the view that periodic fair value adjustments in accordance with prevailing market conditions provide a more up-to-date picture of the value of our investment properties.

Any gain or loss arising from changes in the fair value of investment properties, including investment properties under construction, is recognized in our profit or loss in the period in which the gain or loss arises. Such fair value gain or loss is calculated based on the difference between (i) the fair value as of each reporting date as determined by the independent valuer and (ii) the total additional costs incurred by us during the relevant reporting period plus the fair value as of the prior reporting date. In 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded fair value gains on our investment properties, amounting to approximately RMB1,262.7 million, RMB1,082.5 million, RMB1,404.9 million (US\$198.9 million) and RMB462.2 million (US\$65.4 million), respectively, in our profit or loss, representing 23.1%, 17.9%, 24.0% and 13.0%, respectively, of our profit before tax in such periods. The fluctuations in the fair market value of our investment properties in such periods were primarily due to the addition and completion of new investment properties, as well as their overall appreciation.

There can be no assurance that we will continue to record fair value gains in the future. Please see “Risk Factors — Risks relating to our business — Our profitability may fluctuate substantially due to the periodic reassessment of fair value gains or losses on our investment properties.”

Nature and Timing of our Property Development

The number of property developments that a developer can undertake during any particular period is limited due to the substantial amount of capital required to fund costs of land acquisition and construction, as well as its limited management resources. Property development may take months, or possibly years, before any pre-sale take place. While the pre-sale of a property generates positive cash flows for us in the period in which it is made, according to our accounting policy, we only recognize revenue upon completion and delivery of our properties, which normally takes place from six to 24 months after the commencement of pre-sale of our properties. Because the delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the GFA and timing for delivery of the properties that we sell. In addition, effective management of our revenue stream depends on our ability to gauge, at the launch of a particular project, the expected demand in the market at the anticipated time of completion of such project. As a result, our results of operations may fluctuate in the future. Please also refer to the sections headed “Risk Factors — Risks Relating to Our Business — our results of operations may fluctuate from period to period, which makes it difficult to predict our future performance” and “Business” in this offering memorandum.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with HKFRS. Our reported financial condition and results of operations are sensitive to accounting policies and assumptions and estimates that underlie the preparation of the financial statements. We continually evaluate our estimates and assumptions and base them on historical experience and on various other factors that our directors believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results typically differ from these estimates. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

The selection of critical accounting policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

In 2017, revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties have been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;
- (b) from the rendering of services, when the services have been rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;
- (e) facilities rental income, on a time proportion basis over the lease terms; and

In 2018, 2019 and the six months ended June 30, 2020, 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.

(a) Sales of properties

Revenue from the sale of properties is recognized at the point in time when the purchasers obtained 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.

(b) Rendering of service

Revenue from provision of management service is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) Land development

Revenue from land development is recognized at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

Revenue from other sources

Rental income and facilities rental income is recognized on a time proportion basis over the lease terms.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Properties under Development and Completed Properties Held for Sale

Properties under development are stated at the lower of cost and net realizable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale are stated at the lower of cost and net realizable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realizable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

Investment Properties

Investment properties include both completed investment properties and investment properties under construction.

Completed 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction cost, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognized in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy of "Property and equipment and depreciation" 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 accounted for as a revaluation in accordance with the policy of "Property and equipment and depreciation".

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Tax

EIT

All enterprises with operations in China, including our PRC subsidiaries, are subject to a standard income tax rate of 25%. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the tax authorities, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realize.

LAT

Under PRC tax laws and regulations, all income from our sale or transfer of state-owned land use right, and buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation in land value, calculated as the sale proceeds of properties less deductible expenditures, including borrowing costs and all property development expenditures. Because at the time we deliver a property we may not have completed the entire phase of a project or the project as a whole, our estimate of LAT provisions at that time requires us to use significant judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of the value of land, buildings and attached facilities and the various deductible items. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. We have not finalized our LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using the tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that our management believes it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by us, and it is probable that the temporary difference will not be reversed in the foreseeable future. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

DESCRIPTION OF CERTAIN ITEMS OF THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Revenue represents the gross proceeds, net of business tax, value-added tax and other sales related taxes from the sales of properties; gross rental income received and receivable from investment properties income from property management segment land development income received; and income from project management segment, net of business tax, value-added tax received and receivable.

The following table sets forth our revenue by source for the periods indicated.

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Revenue							
Sales of properties	15,573,839	17,224,700	20,452,820	2,894,909	10,066,254	14,686,375	2,078,721
Gross rental income	123,499	130,962	284,603	40,283	133,392	154,445	21,860
Property management fees	270,295	336,678	458,066	64,835	159,177	233,061	32,988
Land development income	85,691	—	—	—	—	—	—
Project management income	51,921	90,546	174,313	24,672	64,006	61,326	8,680
Total	<u>16,105,245</u>	<u>17,782,886</u>	<u>21,369,802</u>	<u>3,024,699</u>	<u>10,422,829</u>	<u>15,135,207</u>	<u>2,142,249</u>

As we derive substantially all of our revenue from property development, our results of operations for a given period are dependent upon the type and GFA of properties we have completed and delivered during that period, the market demand for those properties and the price we obtain from the pre-sale or sale of the properties. Conditions in the real estate markets in which we operate change from period to period and are affected significantly by the general economic, political and regulatory developments in the PRC. For further details of the effect these factors have on our results of operations, please refer to “Risk Factors.”

Consistent with industry practice in the PRC, after satisfying the conditions for pre-sales set forth in PRC laws and regulations, we often enter into pre-sale contracts with customers while the relevant properties are still under development. Typically there is a time gap of six months to 24 months between the time we commence pre-sale of the properties under development and the completion of the properties. We do not recognize any revenue from the pre-sale of our properties until the development of such properties is complete (upon receipt of the completion certificate) and the relevant property has been delivered to the purchaser, even though the purchase price for a property is usually paid prior to the completion and delivery of the property. Before the completion and delivery of pre-sold properties, deposits and purchase prices or portions thereof received from our customers are recorded as receipts in advance, which is a current liability on our consolidated statements of financial position.

Our rental income, which represents recurring revenue from our investment properties and has been historically generated from retail shops, carparks and office spaces developed by us, was generally recognized in our profit or loss on a time proportion basis over the periods covered by the respective lease terms.

Our property management fees represent recurring revenue from management fees we charge in connection with our completed properties.

Our land development income represents the proceeds we receive from the government for the construction and preparation works we provided in respect of the land infrastructure and ancillary public facilities on certain land parcels in Quanzhou.

Our project management income represents the income we receive from a joint venture for the project management service and other property related service we provided to the project held by the joint venture.

Cost of Sales

The principal component of cost of sales is the cost of completed properties delivered, which consists of direct construction costs, land acquisition costs and capitalized borrowing costs on related borrowed funds during the period of construction. We recognize the cost of completed properties delivered for a given period to the extent that revenue from such properties has been recognized in such period.

The table below sets forth information relating to cost of completed properties delivered for the periods indicated.

	Year ended December 31,						Six months ended June 30,				
	2017		2018		2019		2019	2020	2020		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	%	RMB'000	RMB'000	US\$'000	%
Construction costs	5,263,723	49.6	5,307,375	45.6	8,074,344	1,142,849	52.2	3,926,130	7,902,242	1,118,490	72.4
Land acquisition costs	4,350,326	41.0	4,753,720	40.9	6,362,192	900,510	41.1	2,877,912	2,575,092	364,480	23.6
Capitalized borrowing costs	728,421	6.8	1,237,013	10.6	812,464	114,997	5.2	491,799	323,219	45,749	3.0
Cost of completed properties sold	10,342,470	97.4	11,298,108	97.1	15,249,000	2,158,356	98.5	7,295,841	10,800,553	1,528,719	99.0
Others	277,591	2.6	338,182	2.9	228,931	32,403	1.5	116,408	109,705	15,528	1.0
Cost of sales	<u>10,620,061</u>	<u>100.0</u>	<u>11,636,290</u>	<u>100.0</u>	<u>15,477,931</u>	<u>2,190,759</u>	<u>100.0</u>	<u>7,412,249</u>	<u>10,910,258</u>	<u>1,544,247</u>	<u>100.0</u>
Cost per sq.m. of GFA sold (in RMB/sq.m.)	<u>8,232.6</u>		<u>10,588.5</u>		<u>8,308.0</u>	<u>1,175.9</u>		<u>7,732.4</u>	<u>5,469.9</u>	<u>774.2</u>	

Construction costs

Construction costs represent costs for the design and construction of a project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs, design costs and certain government surcharges. Our construction costs are affected by a number of factors such as price movements of construction materials, location and types of properties, choices of materials and investments in ancillary facilities. Cost of materials is a particularly significant component of our construction costs. Construction costs fluctuate as a result of changes in prices of key construction materials, including cement, steel and other key building materials. Despite our cost control measures, we are still subject to general increases in prices of construction materials, which in turn will increase our construction costs. Please see “Risk Factors — Risks relating to our business — Volatility in the prices of construction materials could adversely affect our business and financial performance.”

Land acquisition costs

Land acquisition costs include costs relating to the acquisition of rights to occupy, use and develop land, including land premiums (which are incurred in connection with a land grant from the PRC government or land obtained in the secondary market by transfer, cooperative arrangement or corporate acquisition), the applicable deed tax associated with the acquisition of land, and other land-related taxes and government surcharges. Our land acquisition costs are influenced by a number of factors, including the location of the property, real estate conditions, the project's plot ratios, the approved use of the land and our method of acquisition, namely whether through PRC government-organized competitive bidding, public auctions, listings-for-sale, private sale transactions or the acquisition of other companies that hold land use right. Land acquisition costs are also affected by changes in PRC regulations. For details of PRC regulations and measures affecting the PRC real estate market, please refer to “Regulation.”

Capitalized borrowing costs

We capitalize a portion of our cost of borrowing to the extent that such costs are directly attributable to the construction of a particular project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which predates the receipt of a permit for commencement of construction work, until the physical completion of construction. For any given project, the finance costs incurred after completing the construction

of a project are not capitalized but are instead accounted for in our profit or loss as finance costs in the period in which they are incurred. Where the duration of a loan is longer than the time of completion of the project, we are unable to capitalize the total interest costs related to the project for the period after completion. Fluctuations in the amount and timing of capitalization from period to period may affect our finance costs.

Other Income and Gains

Other income and gains consists primarily of bank interest income, forfeiture income on deposits received, gain on disposal of items of property and equipment, fair value gain of derivative financial instruments which are not qualified as hedging instruments and gain on bargain purchase.

Selling and Marketing Expenses

Selling and marketing expenses primarily include advertising and promotional expenses relating to the sale of properties (including television, newspaper, magazine, billboard advertisements and certain other promotional events), sales and marketing staff costs, showrooms and other selling and marketing expenses.

Administrative Expenses

Administrative expenses primarily consist of employees' salaries and benefits, office expenses, traveling expenses, entertainment expenses, telephone charges, vehicle expenses and maintenance fees, advisory and consulting fees (including audit fees, legal fees and other professional fees) and insurance costs, as well as amortization of the land use right of undeveloped land.

Changes in Fair Value of Investment Properties

We recognize changes in the fair value of our investment properties, including investment properties under construction, on our profit or loss. In 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded fair value gains on our investment properties amounting to RMB1,262.7 million, RMB1,082.5 million, RMB1,404.9 million (US\$198.9 million) and RMB462.2 million (US\$65.4 million), respectively, and the relevant deferred tax for these fair value gains charged under income tax expenses on our profit or loss was RMB315.7 million, RMB270.6 million, RMB351.2 million (US\$49.7 million) and RMB115.6 million (US\$16.4 million), respectively. Accordingly, the changes in fair value of our investment properties (net of deferred tax) was RMB947.0 million, RMB811.9 million, RMB1,053.7 million (US\$149.1 million) and RMB346.7 million (US\$49.1 million) and represented approximately 27.5%, 22.1%, 26.2% and 13.8% of the profit for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

Finance Costs

Finance costs primarily consist of interest costs net of capitalized interest relating to properties under development and acquisition of land. Not all of the interest costs related to a project can be capitalized. As a result, our finance costs may fluctuate from period to period depending on the level of interest costs that are capitalized within the reporting period as well as changes in the amount of outstanding principal and interest rates. The total amount of interest capitalized in 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB1,177.1 million, RMB1,733.9 million, RMB2,414.2 million (US\$341.7 million) and RMB1,375.4 million (US\$194.7 million), respectively.

Income Tax

Our income tax expenses for a given year include provisions made for Hong Kong profits tax, EIT, LAT and deferred tax during such year.

Hong Kong and Cayman Islands profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on our estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made in 2017, 2018 and 2019 and the six months ended June 30, 2020 as the Group did not generate any assessable profits arising in Hong Kong. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

EIT

Please see “— Key factors affecting our results of operations — Tax — Enterprise Income Tax (EIT)” and “— Critical Accounting Policies — Tax — EIT” above. In 2017, 2018 and 2019 and the six months ended June 30, 2020, our effective tax rate was 37%, 39%, 31% and 29%, respectively.

LAT

Please see “— Key Factors Affecting Our Results of Operations — Tax — Land Appreciation Tax (LAT)” and “Critical Accounting Policies — Tax — LAT” above.

Deferred tax

Please see “— Critical Accounting Policies — Tax — Deferred tax” above.

The carrying value of deferred tax assets relating to recognized tax losses were RMB206.9 million, RMB247.1 million, RMB363.5 million (US\$51.5 million) and RMB487.1 million (US\$68.9 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

Exchange differences on translation of foreign operations

The functional currencies of certain of our overseas subsidiaries and joint ventures and associates are currencies other than RMB. As at each of the reporting dates, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the relevant reporting date, and their statement of profit or loss and other comprehensive incomes are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

We used derivative financial instruments, such as forward currency contracts, to hedge our foreign currency risk and interest rate risk, respectively. Such derivative financial instruments were initially recognized at fair value on the date on which a derivative contract was entered into and were subsequently remeasured at fair value. Derivatives were carried as assets when the fair value was positive and as liabilities when the fair value was negative.

Any gains or losses arising from changes in fair value of derivatives were taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and subsequently reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the profit or loss.

CONSOLIDATED RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue

Our revenue significantly increased by RMB4,712.4 million, or 45.2%, to RMB15,135.2 million (US\$2,142.2 million) for the six months ended June 30, 2020 from RMB10,422.8 million for the six months ended June 30, 2019. The increase was primarily due to 45.9% increase in revenue from sales of properties, 15.8% increase in revenue from rental income and 46.4% increase in revenue from property management fees.

Revenue from property sales increased primarily due to the increase in delivered area by 109.3% from 943,545 sq.m. for the six months ended June 30, 2019 to 1,974,545 sq.m. for the six months ended June 30, 2020, partially offset by the decrease in average unit selling price from RMB10,669 per sq.m. for the six months ended June 30, 2019 to RMB7,438 per sq.m. for the six months ended June 30, 2020. Revenue from rental income increased primarily due to the contribution of rental income from the office buildings of SCE Plaza in Shanghai and the shopping mall of World City in Nan'an. Property management fees increased primarily due to the increase in number and floor area of properties under management. Project management income increased primarily due to the project management service and other property related service income provided to joint ventures.

Cost of sales

Our cost of sales increased by RMB3,498.1 million, or 47.2%, to RMB10,910.3 million (US\$1,544.3 million) for the six months ended June 30, 2020 from RMB7,412.2 million for the six months ended June 30, 2019. This increase was generally in line with the increase in our revenue.

Gross profit

As a result of the above, our gross profit increased by RMB1,214.3 million, or 40.3%, to RMB4,224.9 million (US\$598.0 million) for the six months ended June 30, 2020 from RMB3,010.6 million for the six months ended June 30, 2019 and our gross profit margin decreased to 27.9% for the six months ended June 30, 2020 from 28.9% for the six months ended June 30, 2019.

Other income and gains

Our other income and gains decreased by RMB135.1 million, or 17.8%, to RMB624.7 million (US\$88.4 million) for the six months ended June 30, 2020 from RMB759.8 million for the six months ended June 30, 2019. The decrease in other income and gains was mainly attributable to the absence of gain on bargain purchase on projects in Suzhou for the six months ended June 30, 2020.

Changes in fair value of investment properties

Our changes in fair value of investment properties decreased by RMB270.1 million, or 36.9%, to RMB462.2 million (US\$65.4 million) for the six months ended June 30, 2020 from RMB732.3 million for the six months ended June 30, 2019. Our fair value gain of investment properties for the six months ended June 30, 2020 and the six months ended June 30, 2019 were primarily attributable to the value appreciation of certain shopping malls and long-term rental apartments.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB80.3 million, or 34.7%, to RMB311.6 million (US\$44.1 million) for the six months ended June 30, 2020 from RMB231.3 million for the six months ended June 30, 2019. This increase was mainly attributable to the significant increase in the number of projects for sales.

Administrative expenses

Our administrative expenses increased by RMB400.3 million, or 63.7%, to RMB1,029.0 million (US\$145.6 million) for the six months ended June 30, 2020 from RMB628.7 million for the six months ended June 30, 2019. The increase in administrative expenses was mainly attributable to the increase in administrative staff costs to cope with the needs for business expansion.

Finance costs

Our finance costs decreased by RMB18.2 million, or 6.8%, to RMB248.7 million (US\$35.2 million) for the six months ended June 30, 2020 from RMB266.9 million for the six months ended June 30, 2019.

Share of profits and losses of joint ventures and associates

Our share of losses of joint ventures and associates was RMB6.5 million (US\$0.9 million) for the six months ended June 30, 2020 as compared to share of losses of joint ventures of RMB134.1 million for the six months ended June 30, 2019. The decrease in our share of losses of joint ventures and associates from the six months ended June 30, 2019 to the six months ended June 30, 2020 was primarily due to an increase in delivery of properties of the property projects of joint ventures and associates.

Profit before tax

As a result of the above, our profit before tax increased by RMB318.2 million to RMB3,559.8 million (US\$503.9 million) for the six months ended June 30, 2020 from RMB3,241.6 million for the six months ended June 30, 2019.

Income tax expense

Our income tax expense decreased by RMB4.4 million, or 0.4%, to RMB1,043.2 million (US\$147.7 million) for the six months ended June 30, 2020 from RMB1,047.6 million for the six months ended June 30, 2019. The income tax expense charged for the period as a percentage of profit before tax decreased from approximately 32.3% in the first half of 2019 to approximately 29.3% in the first half of 2020. The decrease was mainly due to the decrease in gross profit margin.

Profit for the period

As a result of the above, our profit for the period increased by RMB322.6 million, or 14.7% to RMB2,516.6 million (US\$356.2 million) for the six months ended June 30, 2020 from RMB2,194.0 million for the six months ended June 30, 2019.

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Revenue

Our revenue increased by RMB3,586.9 million, or 20.2%, to RMB21,369.8 million (US\$3,024.7 million) for the year ended December 31, 2019 from RMB17,782.9 million for the year ended December 31, 2018. This increase was due to 18.7% increase in revenue from property sales, 117.3% increase in rental income, 36.1% increase in revenue from property management fees and 92.5% increase in property management income for the year ended December 31, 2019, as compared to the year ended December 31, 2018.

Revenue from property sales increased primarily due to the increase in delivered area by approximately 72.0% from approximately 1,067,013 sq.m. in 2018 to approximately 1,835,458 sq.m. in 2019, partially offset by the decrease in average unit selling price from approximately RMB16,143 per sq.m. in 2018 to approximately RMB11,143 per sq.m. in 2019. Revenue from rental income increased mainly due to the increase in the contribution of rental income from the office buildings of SCE Plaza in Shanghai and the shopping mall of World City in Nan'an. Property management fees increased primarily due to the increase in number and floor area of properties under management. Property management income increased primarily due to the increase in the number and GFA of our properties under management during the year ended December 31, 2019.

Cost of sales

Our cost of sales increased by RMB3,841.6 million, or 33.0%, to RMB15,477.9 million (US\$2,190.8 million) for the year ended December 31, 2019 from RMB11,636.3 million for the year ended December 31, 2018. This increase was in line with the increase in our revenue.

Gross profit

As a result of the above, our gross profit decreased by RMB254.7 million, or 4.1%, to RMB5,891.9 million (US\$833.9 million) for the year ended December 31, 2019 from RMB6,146.6 million for the year ended December 31, 2018. Our gross profit margin decreased from approximately 34.6% for the year ended December 31, 2018 to approximately 27.6% for the year ended December 31, 2019. The decrease in gross profit margin was attributable to the impact on average unit selling price of projects as result of price restriction policy.

Other income and gains

Our other income and gains increased by RMB769.2 million, or 199.0%, to RMB1,155.8 million (US\$163.6 million) for the year ended December 31, 2019 from RMB386.6 million for the year ended December 31, 2018. The increase was primarily attributable to a gain on bargain purchase of approximately RMB564.3 million, while there was no such income in 2018.

Changes in fair value of investment properties

Our changes in fair value of investment properties increased by RMB322.4 million, or 29.8%, to RMB1,404.9 million (US\$198.9 million) for the year ended December 31, 2019 from RMB1,082.5 million for the year ended December 31, 2018. Our fair value gain of investment properties in 2019 was mainly attributable to the value appreciations of the office buildings of SCE Plaza in Shanghai and certain long-term rental apartments.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB117.6 million, or 29.5%, to RMB516.0 million (US\$73.0 million) for the year ended December 31, 2019 from RMB398.4 million for the year ended December 31, 2018. The increase was mainly attributable to the significant increase in the number of projects for sale.

Administrative expenses

Our administrative expenses increased by RMB317.6 million, or 24.5%, to RMB1,616.3 million (US\$228.8 million) for the year ended December 31, 2019 from RMB1,298.7 million for the year ended December 31, 2018. The increase was mainly attributable to the inclusion of the equity-settled share option expenses of approximately RMB93.8 million in 2019 and the increase in administrative staff costs to cope with the needs for business expansion.

Finance cost

Our finance costs increased by RMB126.4 million, or 31.5%, to RMB528.1 million (US\$74.7 million) for the year ended December 31, 2019 from RMB401.7 million for the year ended December 31, 2018. This increase was mainly attributable to the increase in the total interest expense resulting from the increase in bank and other borrowings as well as senior notes and domestic bonds.

Share of profits and losses of joint ventures and associates

Our share of profits of joint ventures and associates were RMB535.5 million for the year ended December 31, 2018 and RMB154.4 million (US\$21.9 million) for the year ended December 31, 2019. The decrease was mainly attributable to the increase of operating expenses of projects under development of joint ventures and associates and the decrease in the fair value gains of investment properties of joint ventures.

Profit before tax

As a result of the above, our profit before tax decreased by RMB198.2 million to RMB5,854.3 million (US\$828.6 million) for the year ended December 31, 2019 from RMB6,052.5 million for the year ended December 31, 2018.

Income tax expenses

Our income tax expenses decreased by RMB544.8 million, or 22.9%, to RMB1,830.8 million (US\$259.1 million) for the year ended December 31, 2019 from RMB2,375.6 million for the year ended December 31, 2018. The decrease in income tax expense was mainly due to less provision for land appreciation tax made as a result of relatively lower appreciation rate of certain projects.

Profit for the year

As a result of the above, our profit for the year increased by RMB346.7 million, or 9.4%, to RMB4,023.5 million (US\$569.5 million) for the year ended December 31, 2019 from RMB3,676.8 million for the year ended December 31, 2018.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Revenue

Our revenue increased by RMB1,677.7 million, or 10.4%, to RMB17,782.9 million for the year ended December 31, 2018 from RMB16,105.2 million for the year ended December 31, 2017. This increase was due to 10.6% increase in revenue from property sales, 6.0% increase in rental income and 24.6% increase in property management income for the year ended December 31, 2018, as compared to the year ended December 31, 2017. However we recognized land development income of approximately RMB85.7 million in 2017, which was attributable to pre-construction and preparation work provided for certain land parcels in Quanzhou. The project management income increased significantly by 74.4% from approximately RMB51.9 million in 2017 to approximately RMB90.5 million in 2018, which was attributable to the project management service and other property related service income provided to joint ventures.

Revenue from property sales increased primarily due to the increase in average unit selling price from approximately RMB12,397 per sq.m. in 2017 to approximately RMB16,143 per sq.m. in 2018 and the decrease in delivered area by approximately 15.1% from approximately 1,256,275 sq.m. in 2017 to approximately 1,067,013 sq.m. in 2018. Revenue from rental income increase mainly due to the increase in contribution of rental income from shopping mall of World City in Beijing. Property management income increased mainly attributable to the increase in number and GFA of properties under management. The recognition of land development income in 2017 was attributable to pre-construction and preparation work provided for certain land parcels in Quanzhou. The recognition project management income was attributable to the project management service and other property related service income provided to joint ventures.

Cost of sales

Our cost of sales increased by RMB1,016.2 million, or 9.6%, to RMB11,636.3 million for the year ended December 31, 2018 from RMB10,620.1 million for the year ended December 31, 2017. This increase was generally in line with the increase in our revenue.

Gross Profit

As a result of the above, our gross profit increased by RMB661.4 million, or 12.1%, to RMB6,146.6 million for the year ended December 31, 2018 from RMB5,485.2 million for the year ended December 31, 2017 and our gross profit margin increased to 34.6% for the year ended December 31, 2018 from 34.1% for the year ended December 31, 2017.

Other income and gains

Our other income and gains increased by RMB263.8 million, or 214.8%, to RMB386.6 million for the year ended December 31, 2018 from RMB122.8 million for the year ended December 31, 2017. The significant increase in other income and gains was mainly attributable to fair value gain of derivative financial instruments - transactions not qualifying as hedges of approximately RMB166.3 million, while there was no such income in 2017.

Changes in fair value of investment properties

Our changes in fair value of investment properties decreased by RMB180.2 million, or 14.3%, to RMB1,082.5 million for the year ended December 31, 2018 from RMB1,262.7 million for the year ended December 31, 2017. Our fair value gain of investment properties in 2018 was mainly attributable to the value appreciation of the office building of SCE Plaza in Shanghai and shopping mall of World City in Nan'an.

Selling and marketing expenses

Our selling and marketing expenses decreased by RMB132.1 million, or 24.9%, to RMB398.4 million for the year ended December 31, 2018 from RMB530.5 million for the year ended December 31, 2017. The decrease was mainly attributable to the capitalization of sales commission resulting from the implementation of HKFRS 15.

Administrative expenses

Our administrative expenses increased by RMB335.3 million, or 34.8%, to RMB1,298.7 million for the year ended December 31, 2018 from RMB963.4 million for the year ended December 31, 2017. The increase was mainly attributable to the increase in administrative staff costs to cope with the needs of business expansion to several new cities.

Finance cost

Our finance costs increased by RMB9.7 million, or 2.5%, to RMB401.7 million for the year ended December 31, 2018 from RMB392.0 million for the year ended December 31, 2017.

Share of profits and losses of joint ventures and associates

Our share of profits of joint ventures and associates were RMB808.5 million for the year ended December 31, 2017 and RMB535.5 million for the year ended December 31, 2018.

Profit before tax

As a result of the above, our profit before tax increased by RMB591.9 million to RMB6,052.5 million for the year ended December 31, 2018 from RMB5,460.6 million for the year ended December 31, 2017.

Income tax expenses

Our income tax expenses increased by RMB363.5 million, or 18.1%, to RMB2,375.6 million for the year ended December 31, 2018 from RMB2,012.1 million for the year ended December 31, 2017. The income tax expense charged for the year accounted for a higher percentage of our revenue in 2018 as compared to 2017, which was mainly attributable to more provision for land appreciation tax made as a result of relatively higher appreciation rate of certain projects.

Profit for the year

As a result of the above, our profit for the year significantly increased by RMB228.2 million, or 6.6%, to RMB3,676.8 million for the year ended December 31, 2018 from RMB3,448.6 million for the year ended December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We operate in a capital-intensive industry and have historically financed our working capital, capital expenditure and other capital requirements through bank and other borrowings, pre-sale proceeds of our properties, and equity and debt issuances. Our short-term liquidity requirements relate to servicing our debt and funding our working capital requirements, and our sources of short-term liquidity include cash balances, proceeds from pre-sales and sales of properties and new loans. Our long-term liquidity requirements relate to funding of the development of our new property projects and repayment of our long-term debt, and our sources of long-term liquidity include loans, capital contributions from shareholders and proceeds from our senior notes offering and additional offerings of equity or other securities. See “Description of Other Material Indebtedness.”

Cash Flow

The table below summarizes our consolidated cash flow for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Selected cash flow statement data							
Net cash flows (used in)/ generated from operating activities	3,423,550	4,281,612	(7,088,320)	(1,003,287)	87,928	(4,054,593)	(573,890)
Net cash flows used in investing activities	(8,077,971)	(8,663,457)	(6,453,368)	(913,415)	(8,514,721)	(2,421,088)	(342,683)
Net cash flows from financing activities	<u>5,593,049</u>	<u>11,590,168</u>	<u>17,132,281</u>	<u>2,424,917</u>	<u>11,376,237</u>	<u>6,420,933</u>	<u>908,824</u>
Net increase/(decrease) in cash and cash equivalents	<u>938,628</u>	<u>7,208,323</u>	<u>3,590,593</u>	<u>508,215</u>	<u>2,949,444</u>	<u>(54,748)</u>	<u>(7,749)</u>

Net cash flows used in operating activities

Our cash used in operations principally comprises payments for our property development activities and land acquisitions. Our cash from operations is generated principally from proceeds received from pre-sales and sales of our properties, rental income and property management fees.

For the six months ended June 30, 2020, our net cash flows used in operating activities was RMB4,054.6 million (US\$573.9 million), which was attributable to (i) cash used in operations of RMB1,777.7 million (US\$251.6 million), (ii) interest paid of RMB1,459.9 million (US\$206.6 million), (iii) PRC corporate income tax paid of RMB480.0 million (US\$67.9 million) and (iv) PRC land appreciation tax paid of RMB420.4 million (US\$59.5 million), offset by interest received of RMB83.4 million (US\$11.8 million).

For the year ended December 31, 2019, our net cash flows used in operating activities was RMB7,088.3 million (US\$1,003.3 million), which was attributable to (i) cash used in operations of RMB3,426.0 million (US\$484.9 million), (ii) interest paid of RMB2,520.3 million (US\$356.7 million), (iii) PRC corporate income tax paid of RMB798.3 million (US\$113.0 million), (iv) PRC land appreciation tax paid of RMB669.0 million (US\$94.7 million), offset by interest received of RMB325.2 million (US\$46.0 million). Our cash used in operations in 2019 was primarily attributable to (i) profit before tax of RMB5,854.3 million (US\$828.6 million), which was adjusted mainly to account for finance costs of RMB528.1 million (US\$74.8 million), share of profits of joint ventures and associates of RMB154.4 million (US\$21.9 million), interest income of RMB325.2 million (US\$46.0 million), gain on bargain purchase of RMB564.3 million (US\$79.9 million) and changes in fair value of investment properties, net of RMB1,404.9 million (US\$198.9 million) and (ii) changes in working capital, which were primarily attributable to an

increase in properties under development of RMB34,723.9 million (US\$4,914.8 million), a decrease in completed properties held for sale of RMB15,249.0 million (US\$2,158.4 million), an increase in prepayments, other receivables and other assets of RMB2,966.3 million (US\$419.9 million), an increase in trade and bill payables of RMB6,696.4 million (US\$947.8 million) and an increase in contract liabilities of RMB7,705.8 million (US\$1,090.7 million).

For the year ended December 31, 2018, our net cash flows from operating activities was RMB4,281.6 million, which was attributable to (i) cash generated from operations of RMB7,860.3 million and (ii) interest received of RMB87.9 million, offset by (a) interest paid of RMB2,013.9 million, (b) PRC corporate income tax paid of RMB880.2 million and (c) PRC land appreciation tax paid of RMB772.5 million. Our cash generated from operations in 2018 was primarily attributable to (i) profit before tax of RMB6,052.5 million, which was adjusted mainly to account for finance costs of RMB401.7 million, share of profits of joint ventures and associates of RMB535.5 million, fair value gains on derivative financial instruments of RMB166.3 million and changes in fair value of investment properties, net of RMB1,082.5 million and (ii) changes in working capital, which were primarily attributable to additions to prepaid land lease payments of RMB6,423.0 million, an increase in properties under development of RMB9,386.1 million, a decrease in completed properties held for sale of RMB11,298.1 million, an increase in prepayments, other receivables and other assets of RMB3,194.5 million, an increase in trade and bills payables of RMB4,229.2 million, an increase in other payables and accruals of RMB1,732.6 million and an increase in contract liabilities of RMB5,207.0 million.

For the year ended December 31, 2017, our net cash flow from operating activities was RMB3,423.6 million, which was attributable to (i) cash generated from operations of RMB6,192.5 million and (ii) interest received of RMB41.1 million, offset by (a) interest paid of RMB1,483.5 million, (b) PRC corporate income tax paid of RMB810.4 million and (c) PRC land appreciation tax paid of RMB516.1 million. Our cash generated from operations in 2017 was primarily attributable to (i) profit before tax of RMB5,460.6 million, which was adjusted mainly to account for finance costs of RMB392.0 million, share of profits of joint ventures and associates of RMB808.5 million, fair value losses on derivative financial instruments of RMB332.6 million and changes in fair value of investment properties, net of RMB1,262.7 million and (ii) changes in working capital, which were primarily attributable to additions to prepaid land lease payments of RMB6,626.3 million, an increase in properties under development of RMB5,168.4 million, a decrease in completed properties held for sale of RMB10,342.5 million, a decrease in trade receivables of RMB127.4 million, an increase in prepayments, deposits and other receivables of RMB2,445.7 million, an increase in trade and bills payables of RMB352.4 million and an increase in other payables and accruals of RMB5,409.1 million.

Net cash flows used in investing activities

Our cash flows used in investing activities primarily reflects the acquisition of property and equipment, acquisition of property project companies and investments in associates and joint ventures. Our cash inflow from investing activities primarily reflects the disposal of joint ventures.

For the six months ended June 30, 2020, our net cash flows used in investing activities was RMB2,421.1 million (US\$342.7 million), which was primarily attributable to (i) increase in time deposits with original maturity over three months of RMB1,608.0 million (US\$227.6 million) and (ii) investment in joint ventures of RMB1,595.0 million (US\$225.8 million). These were partially offset by (i) loans with joint ventures and associates of RMB595.3 million (US\$84.3 million), (ii) decrease in restricted cash of RMB261.8 million (US\$37.1 million) and (iii) decrease in pledged deposits of RMB242.3 million (US\$34.3 million).

For the year ended December 31, 2019, our net cash flows used in investing activities was RMB6,453.4 million (US\$913.4 million), which was primarily attributable to (i) loans to joint ventures and associates of RMB2,815.4 million (US\$398.5 million) and (ii) investment in joint ventures of RMB1,459.1 million (US\$206.5 million) and (iii) additions to investment properties of RMB1,010.0 million (US\$143.0 million). These were partially offset by (i) deemed acquisition of

subsidiaries of RMB526.9 million (US\$74.6 million), (ii) disposal of subsidiaries of RMB384.5 million (US\$54.4 million) and (iii) decrease in restricted cash of RMB112.0 million (US\$15.9 million).

For the year ended December 31, 2018, our net cash flows used in investing activities was RMB8,663.5 million, which was primarily attributable to (i) increase in restricted cash of RMB2,800.2 million, (ii) investment in joint ventures of RMB1,838.0 million, (iii) loans to joint ventures and associates of RMB1,227.8 million, partially offset by (i) dividend from joint ventures of RMB247.9 million, (ii) proceeds from disposal of investment properties of RMB177.5 million and (iii) deemed acquisition of subsidiaries of RMB93.5 million.

For the year ended December 31, 2017, our net cash flow used in investing activities was RMB8,078.0 million, which was primarily attributable to (i) increase in advances of loans to joint ventures and associates of RMB2,934.5 million, (ii) acquisition of subsidiaries that are not a business of RMB2,258.0 million, (iii) investment in joint ventures of RMB1,295.2 million and (iv) additions to investment properties of RMB530.1 million. These were partially offset by (i) decrease in pledged deposits of RMB236.6 million, (ii) dividend from joint ventures of RMB202.0 million and (iii) proceeds from disposal of investment properties of RMB7.8 million.

Net cash flows from financing activities

Our cash flows from financing activities are mainly generated from new bank loans, issuance of senior notes and capital contributions from non-controlling shareholders. Our cash outflow from financing activities primarily reflects repayment of bank loans.

For the six months ended June 30, 2020, our cash flows from financing activities was RMB6,420.9 million (US\$908.8 million), which was primarily attributable to (i) new bank and other borrowings of RMB10,482.8 million (US\$1,483.7 million), (ii) increase in amounts due to related parties, net of RMB1,664.2 million (US\$235.6 million) and (iii) proceeds from issuance of senior notes of RMB1,071.6 million (US\$151.7 million), partially offset by (i) repayment of bank and other borrowings of RMB6,197.6 million (US\$877.2 million) and (ii) acquisition of non-controlling interests of RMB418.7 million (US\$59.3 million).

For the year ended December 31, 2019, our net cash flows generated from financing activities was RMB17,132.3 million (US\$2,424.9 million), which was primarily attributable to (i) new bank and other borrowings of RMB16,422.7 million (US\$2,324.5 million), (ii) proceeds from issuance of senior notes and domestic bonds of RMB9,633.4 million (US\$1,363.5 million) and (iii) increase in amounts due to related parties, net of RMB6,259.1 million (US\$885.9 million), partially offset by (i) repayment of bank and other borrowings of RMB14,790.2 million (US\$2,093.4 million), (ii) redemption of senior notes of RMB2,388.6 million (US\$338.1 million) (ii) acquisition of non-controlling interests of RMB1,013.2 million (US\$143.4 million).

For the year ended December 31, 2018, our cash flows from financing activities was RMB11,590.2 million, which was primarily attributable to (i) new bank and other borrowings of RMB16,648.5 million, (ii) proceeds from issuance of senior notes of RMB3,753.0 million and (iii) capital contribution from non-controlling shareholders of RMB1,545.5 million, partially offset by (i) repayment of bank and other borrowings of RMB9,954.0 million, (ii) decrease in amounts due to related parties of RMB1,221.1 million and (iii) issuance costs of senior notes of RMB48.5 million.

For the year ended December 31, 2017, our net cash flow from financing activities was RMB5,593.0 million, which was primarily attributable to (i) new bank and other borrowings of RMB8,382.0 million, (ii) proceeds from issuance of senior notes of RMB3,425.4 million, (iii) proceeds from issuance of shares of RMB1,240.2 million and (iv) capital contribution from non-controlling shareholders of RMB763.1 million. These were partially offset by (i) repayment of bank and other borrowings RMB6,729.9 million, (ii) dividend paid of RMB624.9 million, and (iii) acquisition of non-controlling interests of RMB238.5 million. In August, 2017, 400,000,000 of our shares were placed to certain investors at subscription price of HK\$3.64 per share (the "Placing"). The net proceeds from the Placing is approximately HK\$1,436.1 million (equivalent to US\$183.0 million).

Cash and Bank Balances

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our cash and cash equivalents (excluding restricted cash and pledged deposits) amounted to RMB8,145.5 million, RMB15,515.3 million, RMB19,150.8 million (US\$2,710.6 million) and RMB20,738.1 million (US\$2,935.3 million), respectively.

Pursuant to the relevant regulations in the PRC, we are required to place certain amounts of pre-sales proceeds and other funds into designated bank accounts for guarantee purposes. As of December 31, 2017, 2018 and 2019 and June 30, 2020, such restricted cash amounted to RMB1,471.3 million, RMB4,409.6 million, RMB4,297.6 million (US\$608.3 million) and RMB4,035.8 million (US\$571.2 million), respectively. In addition, we pledged certain bank deposits to secure our general banking facilities and bills payable. As of December 31, 2017, 2018 and 2019 and June 30, 2020, such pledged deposits amounted to RMB25.3 million, RMB47.9 million, RMB450.3 million (US\$63.7 million) and RMB208.0 million (US\$29.4 million), respectively.

Indebtedness

Senior Notes and Domestic Bonds

The following table sets forth our outstanding senior notes and domestic bonds as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
10.0% Senior Notes due 2020	2,229,024	2,363,010	—	—	—	—
2017 Notes	3,185,409	3,370,234	3,438,934	486,749	3,512,640	497,182
April 2018 Notes	—	4,043,674	4,131,251	584,741	4,222,756	597,692
January 2019 Notes	—	—	3,443,581	487,407	3,521,379	498,419
April 2019 Notes	—	—	2,395,960	339,126	3,523,082	498,660
July 2019 Notes	—	—	3,430,408	485,543	3,504,401	496,016
2015 Domestic Bonds	3,477,192	3,428,726	3,436,692	486,432	3,440,842	487,019
2019 Domestic Bonds	—	—	540,000	76,432	540,000	76,432
Total	8,891,625	13,205,644	20,816,826	2,946,430	22,265,100	3,151,420

The table below sets forth the maturity profiles of our senior notes and domestic bonds as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Within one year or on demand	3,477,192	—	3,436,692	486,432	11,184,977	1,583,131
In the second year	—	5,791,736	7,574,832	1,072,148	3,512,640	497,182
In the third to fifth year, inclusive	5,414,433	7,413,908	9,805,302	1,387,850	7,567,483	1,071,107
Total	8,891,625	13,205,644	20,816,826	2,946,430	22,265,100	3,151,420

See "Description of Other Material Indebtedness".

Interest bearing bank and other borrowings

The following table sets forth our outstanding borrowings as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Current						
— Bank loans — secured	2,517,312	8,466,376	5,808,229	822,101	8,090,911	1,145,194
— Bank loans — unsecured	225,897	238,347	34,866	4,935	35,556	5,033
— Other loans — secured	1,738,000	1,832,658	3,015,395	426,802	1,408,341	199,338
Non-Current						
— Bank loans — secured	4,076,546	6,819,304	9,646,567	1,365,383	12,320,224	1,743,814
— Bank loans — unsecured	—	—	313,794	44,415	320,007	45,294
— Other loans — secured	4,073,700	2,775,316	2,441,405	345,558	1,067,709	151,124
Total	<u>12,631,455</u>	<u>20,132,001</u>	<u>21,260,256</u>	<u>3,009,194</u>	<u>23,242,748</u>	<u>3,289,797</u>

Our outstanding bank and other borrowings amounted to RMB12,631.5 million, RMB20,132.0 million, RMB21,260.3 million (US\$3,009.2 million) and RMB23,242.7 million (US\$3,289.8 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

As of June 30, 2020, our onshore bank loan amounted to RMB15,534.5 million (US\$2,198.8 million), our onshore other loans amounted to RMB2,476.0 million (US\$350.5 million), our offshore bank loan amounted to RMB5,232.2 million (US\$740.6 million).

As of June 30, 2020, a majority of our bank and other borrowings, senior notes and domestic bonds are denominated in RMB. As of June 30, 2020, our total debt denominated in US dollars, including banks and other borrowing and the Existing Notes, amounted to RMB19,582.4 million (US\$2,771.7 million).

Except for certain bank and other borrowings of RMB5,195.8 million, RMB5,915.3 million, RMB5,961.8 million (US\$843.8 million) and RMB3,360.6 million (US\$475.7 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020 that bear interest at a fixed interest rate, all of our bank and other borrowings bear interest at floating rates. The carrying amounts of our bank and other borrowings approximate their fair values. Average interest rate means the borrowing costs incurred during the year (excluding borrowing costs arising from senior notes) divided by the balance of bank and other borrowings as at the year end.

Our net gearing ratio was 71.8%, 60.4%, 60.0% and 68.3% as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The net gearing ratio was calculated by dividing the net amount of borrowings (total of interest-bearing bank and other borrowings, senior notes and domestic bonds after deduction of cash and cash equivalents, restricted cash and pledged deposits) by total equity.

The table below sets forth the maturity profiles of our bank and other borrowings as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Bank loans repayable						
Within one year or on demand	2,743,209	8,704,723	5,843,095	827,036	8,126,467	1,150,227
In the second year	3,151,071	2,327,463	4,768,381	674,921	5,125,571	725,477
In the third to fifth years, inclusive	846,755	4,233,089	4,081,871	577,751	6,488,711	918,417
Beyond fifth year	78,720	258,752	1,110,109	157,126	1,025,949	145,214
Sub-total	<u>6,819,755</u>	<u>15,524,027</u>	<u>15,803,456</u>	<u>2,236,834</u>	<u>20,766,698</u>	<u>2,939,335</u>
Other borrowings repayable						
Within one year	1,738,000	1,832,658	3,015,395	426,801	1,408,341	199,338
In the second year	3,363,700	650,000	1,761,405	249,311	1,067,709	151,124
In the third to fifth years, inclusive	710,000	2,125,316	680,000	96,248	—	—
Total	<u>12,631,455</u>	<u>20,132,001</u>	<u>21,260,256</u>	<u>3,009,194</u>	<u>23,242,748</u>	<u>3,289,797</u>

Pledge of assets

Our bank borrowings listed above were secured by certain investment properties, properties under development, completed properties held for sale, prepaid land lease payments, bank deposits and property and equipment, the details of which are set forth below.

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Bank deposits	25,300	47,909	450,253	63,729	207,966	29,436
Property and equipment	30,568	19,938	10,630	1,504	10,486	1,484
Investment properties	5,771,766	16,148,278	10,260,000	1,452,209	11,551,494	1,635,008
Prepaid land lease payments	1,004,198	2,400,597	—	—	—	—
Properties under development. . . .	12,162,467	18,029,459	31,504,324	4,459,148	38,006,207	5,379,429
Completed properties held for sale	503,085	304,098	2,117,351	299,692	2,148,505	304,101
Total	<u>19,497,384</u>	<u>36,950,279</u>	<u>44,342,558</u>	<u>6,276,282</u>	<u>51,924,658</u>	<u>7,349,458</u>

Financial guarantees

The table below sets forth the financial guarantees as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Guarantees in respect of mortgage facilities provided for certain purchasers of our properties . . .	<u>14,947,867</u>	<u>15,912,024</u>	<u>20,307,223</u>	<u>2,874,301</u>	<u>19,738,165</u>	<u>2,793,756</u>
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures and associates' properties	<u>793,633</u>	<u>1,097,021</u>	<u>2,652,313</u>	<u>375,411</u>	<u>3,882,555</u>	<u>549,540</u>

Note:

As of December 31, 2017, 2018 and 2019 and June 30, 2020, we provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of our properties. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, we are responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks.

Under the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans. Upon default on mortgage repayments by these purchasers, the banks are entitled to take over legal title and will realize the pledged properties through public auction. We are responsible for repaying the banks when the proceeds from the public auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

Our guarantee period starts from the date of the grant of the relevant mortgage loans and ends upon the submission of property ownership certificates to the mortgagee banks, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and our directors consider that in the case of default on payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made for the guarantees.

Commitments

We had the following capital commitments as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Contracted, but not provided for:						
— Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in the PRC	<u>9,686,960</u>	<u>15,245,582</u>	<u>18,951,500</u>	<u>2,682,411</u>	<u>22,076,070</u>	<u>3,124,665</u>

In addition, our share of the joint ventures and associates' own capital commitments which are not included in the above, is as follows:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Contracted, but not provided for:						
— Capital expenditure for joint ventures and associates' properties under development and construction of investment properties in the PRC	<u>185,843</u>	<u>2,803,668</u>	<u>3,737,499</u>	<u>529,009</u>	<u>4,914,122</u>	<u>695,549</u>

MARKET RISKS

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various types of market risk in the ordinary course of business. We maintain our accounting records and prepare our financial statements in Renminbi.

Our assets are predominantly in the form of prepaid land lease payments, investment properties, properties under development and completed properties held for sale. In the event of a severe downturn in the real estate market, these assets may not be readily realized.

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of contractors' fees pursuant to our arrangements with the relevant contractors. Rising prices for construction materials will therefore affect our construction costs in the form of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, we do not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate as unrestricted deposits throughout for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Our exposure to the risk of changes in interest rates relates to our bank deposits and bank borrowings with floating interest rates. We used interest rate swaps to hedge our interest rate risk in the past, and will consider hedging interest rate risk in the future. Please see "Risk Factors — Risks relating to our business — Our business may be adversely affected by future increases in interest rates."

Foreign Currency Risk

All of our turnover and substantially all of our operating expenses are denominated in RMB, which is currently not a freely convertible currency. The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of our PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to shareholders.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, our PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to our Company, without prior approval of the State Administration for Foreign Exchange Bureau. Our PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect our subsidiaries' ability to obtain required foreign exchange through debt or equity financing, including by means of loans or capital contributions from shareholders. Please refer to the sections headed "Risk Factors" in this offering memorandum.

Our financial assets and liabilities, including certain amounts due from/(to) related parties denominated in Hong Kong dollars and certain short term deposits denominated in Hong Kong dollars and United States dollars, are subject to foreign currency risk. Therefore, the fluctuations in the exchange rates of RMB against foreign currencies could affect our results of operations.

There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the RMB and other currencies. As of June 30, 2020, no foreign currency hedging arrangement was made as of June 30, 2020. We will closely monitor our exposure to fluctuation in foreign currency exchange rates. While we may decide to enter into further hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

Credit Risk

It is our policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, we do not have any significant credit risk as the credit given to any individual or corporate entity is not significant. We do not have significant concentration of credit risk.

The credit risk of our other financial assets, which mainly comprise of cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Inflation

China has not experienced significant inflation or deflation in recent years. Inflation in the past did not materially affect our business. Deflation could negatively affect our business as it might be a disincentive for prospective purchasers to make a purchase.

NON-GAAP FINANCIAL MEASURES

We use EBITDA and EBITDA margin to provide additional information about our operating performance. EBITDA consists of profit for the year/period plus capitalized borrowing costs included in cost of sales, finance costs, income tax expense, depreciation, amortization, premium paid on early redemption of senior notes, write down to net realizable value of completed properties held for sale, net (gain)/loss on disposal of investment properties, equity-settled share option expenses, dividend in cash received from joint ventures and associates, provision of major overhauls, net fair value (gain)/loss on financial assets at fair value through profit or loss, impairment of investment in associates, net (gain)/loss on disposal of subsidiaries and gain on disposal of a joint venture and minus positive changes in fair value of investment properties, fair value (gain)/loss of derivative financial instruments — transactions not qualifying as hedges, share of profits and losses of joint ventures and associates, net gain on disposal of items of property and equipment and net foreign exchange differences. EBITDA margin is calculated by dividing EBITDA by revenue.

EBITDA is not a standard measure under either HKFRS or GAAP in certain other countries. As the property development business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS and GAAP in certain other countries measure to EBITDA is net profit/(loss) for the period/year. We use EBITDA in addition to profit before income tax because profit before income tax includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of land use right. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as land use right amortization, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year under HKFRS to our definition of EBITDA for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Profit for the year/period	3,448,551	3,676,823	4,023,466	569,485	2,194,020	2,516,639	356,207
Adjustments							
Capitalized borrowing costs							
included in cost of sales	728,421	1,237,013	812,464	114,997	491,799	323,219	45,749
Finance costs	392,048	401,686	528,142	74,754	266,873	248,720	35,204
Income tax expense	2,012,091	2,375,633	1,830,809	259,134	1,047,616	1,043,197	147,655
Depreciation	21,580	33,065	95,855	13,568	58,066	46,185	6,537
Amortization	17,435	8,451	166	23	83	83	12
Premium paid on early redemption of senior notes	—	—	59,820	8,467	—	—	—
Write down to net realizable value of completed properties held for sale	66,698	—	39,035	5,525	—	—	—
(Gain)/loss on disposal of investment properties, net.	10,171	11,988	—	—	—	(11,157)	(1,579)
Equity-settled share option expenses	53,965	17,537	93,776	13,273	71,048	21,429	3,033
Dividend in cash received from joint ventures and associates	202,552	248,478	30,224	4,278	24,075	—	—
Provision of major overhauls	5,003	5,228	5,465	774	5,346	5,587	791
Fair value (gain)/loss on financial assets at fair value through profit or loss	—	39,285	6,088	862	18,536	(56,511)	(7,999)
Changes in fair value of investment properties	(1,262,744)	(1,082,540)	(1,404,861)	(198,845)	(732,250)	(462,241)	(65,426)
Fair value (gain)/loss of derivative financial instruments — transactions not qualifying as hedges	332,561	(166,338)	(26,843)	(3,799)	(15,300)	—	—
Share of (profits) and losses of							
Joint ventures	(814,542)	(513,275)	(181,599)	(25,704)	117,468	(16,964)	(2,401)
Associates	6,062	(22,217)	27,168	3,845	16,668	23,490	3,325
Gain on disposal of items of property and equipment, net.	(1,601)	(11,190)	(251)	(36)	(76)	(99)	(14)
Exchange (gains)/losses, net.	135,081	78,141	16,450	2,328	18,313	(17,102)	(2,421)
Impairment of investment in associates	—	—	32,423	4,589	—	—	—
(Gain)/loss on disposal of subsidiaries, net.	—	—	(17,217)	(2,437)	—	156,174	22,105
Gain on disposal of a joint venture	—	—	(14,046)	(1,988)	—	—	—
EBITDA	<u>5,353,332</u>	<u>6,337,768</u>	<u>5,956,534</u>	<u>843,093</u>	<u>3,582,285</u>	<u>3,820,649</u>	<u>540,778</u>

You should not consider our definition of EBITDA in isolation or construe it as an alternative to operating profit or as an indicator of operating performance or any other standard measure under HKFRS or GAAP in certain other countries. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. You should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes — Definitions” for a description of the manner in which EBITDA is defined for purposes of the Indenture governing the Notes.

INDUSTRY OVERVIEW

The information in the section below has been derived, in part, from government publications unless otherwise indicated. This information has not been independently verified by us or any of our affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

MACRO-ECONOMIC CONDITIONS OF THE PRC

Since China's adoption of the open door policy in 1978, China has experienced significant economic growth, which has been driven further by its accession to the World Trade Organization in 2001. China's nominal GDP increased from RMB34,908.1 billion in 2009 to RMB98,560.4 billion in 2019, representing a compound annual growth rate (CAGR) of 10.9% and making China one of the fastest growing economies in the world. In line with its GDP growth, China's per capita GDP also rose from RMB26,222.0 in 2009 to RMB70,397.8 in 2019, representing a CAGR of 10.4%. Amidst strong GDP growth, per capita annual urban disposable income in China grew rapidly during the period from RMB17,174.7 in to RMB42,359.0 in 2019, reflecting a nationwide CAGR of 9.4% during this period and implying increased purchasing power for urban households throughout China.

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

Macro-economic conditions of the PRC	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	09-19 CAGR
Population (mm)	1,334.5	1,340.9	1,347.4	1,354.0	1,360.7	1,367.8	1,374.6	1,382.7	1,390.1	1,395.4	1,400.1	0.5%
Urban population (mm)	621.9	670.0	691.0	711.8	731.1	749.2	771.2	793.0	813.5	843.1	863.7	3.3%
Nominal GDP (RMB bn)	34,908.1	41,303.0	48,930.1	54,036.7	59,524.4	64,397.4	68,905.2	74,358.6	82,712.2	88,739.6	98,560.4	10.9%
Real GDP growth (%)	9.4	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.1	
Per capita GDP (RMB)	26,222.0	30,876.0	36,403.0	40,007.0	43,852.0	47,203.0	50,251.0	53,935.0	59,660.0	65,174.4	70,397.8	10.4%
CPI growth (%)	-0.7	3.3	5.4	2.6	2.6	2	1.4	2	1.6	1.9	2.9	
Urbanization (%)	49.1	50.3	51.5	52.6	53.6	54.5	55.4	56.2	56.9	59.1	61.7	
Unemployment rate (%)	4.3	4.1	4.1	4.1	4.1	4.1	4.1	4	3.9	3.9	5.2	1.9%
Per capita annual urban disposable income (RMB)	17,174.7	19,109.4	21,809.8	24,127.0	26,467.0	28,843.9	31,194.8	33,616.2	36,396.2	39,250.8	42,359.0	9.4%
Consumption expenditure per capita — Urban (RMB)	12,264.6	13,471.5	15,160.9	16,674.3	18,487.5	19,968.1	21,392.4	23,078.9	24,445.0	26,112.3	28,063.0	8.6%
Retail sales of consumer goods (RMB bn)	13,304.8	15,800.8	18,720.6	21,443.3	24,284.3	27,189.6	30,093.1	33,231.6	36,626.2	38,098.7	41,527.6	12.1%
Foreign direct investment (US\$ bn)	94.1	105.7	116.0	111.7	117.6	119.6	126.3	126.0	136.3	138.3	155.8	5.2%
Fixed asset investment (RMB bn)	19,392.0	24,379.8	30,239.6	36,485.4	43,574.7	50,126.5	55,159.0	59,650.1	63,168.4	63,563.6	55,147.8	11.0%
Real estate investment in China (RMB bn)	3,624.2	4,825.9	6,179.7	7,180.4	8,601.3	9,503.6	9,597.9	10,258.1	10,980.0	12,026.4	13,219.4	13.8%

Source: CEIC, EIU, National Bureau of Statistics, Business Monitor International, UN, Fitch Solutions

Key real estate reforms in the PRC

The property development industry in the PRC is extremely competitive and heavily restricted by governmental policies, regulations and laws. Entry barriers of the industry include obtaining qualification certificates related to property development, the demand for continuously increasing, or at least replenishing, land bank and maintaining adequate working capital for projects. Many of these requirements lead to a part of China's attempts to reform the market. Prior to the reform of the PRC real estate market in the 1990s, the PRC real estate development industry was part of the nation's centrally planned economy. In the 1990s, the PRC government initiated a number of real estate reforms and, as a result, China's real estate sector began its transition to a market-based system. For a discussion of key real estate reforms and changes in PRC government policies, see "Regulation."

Growth of real estate markets in China

We believe the economic growth of China, the increase in disposable income, the emergence of the mortgage lending market and the increase in the urbanization rate are key factors in sustaining the growth of China's real estate market. Government housing reforms continue to encourage private ownership, and it is expected that an increasing proportion of urban residents will own private properties in the near future.

The average selling price of real estate in China reached a CAGR of 7.6% between 2009 and 2019. In 2019, the average price of residential real estate was RMB9,284.9 per sq.m.

From 2009 to 2019, there was an increasing trend in the GFA of residential real estate completed and sold in China. The CAGR in sales from 2009 to 2019 was 5.7%, reaching a total GFA sold of 1,501.4 million sq.m.

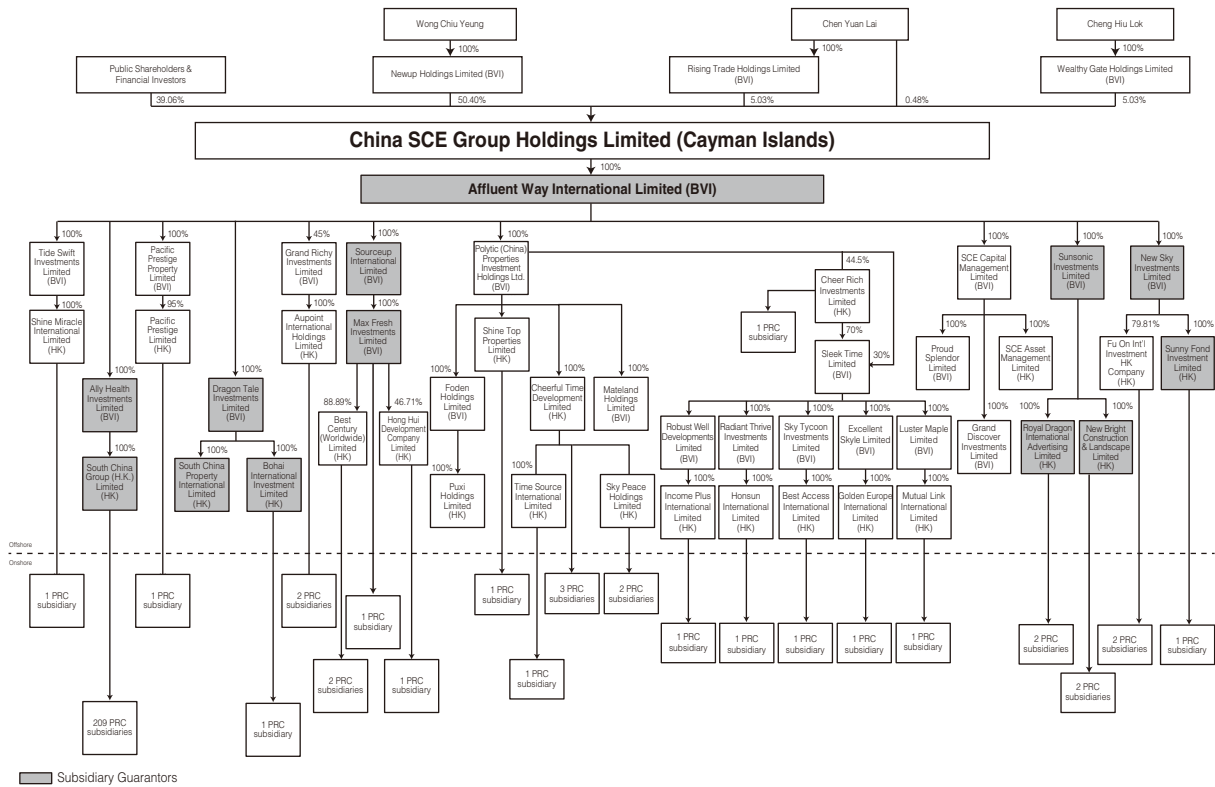
The table below sets out the residential GFA completed and sold, as well as the average selling price of real estate in China for the years indicated:

Growth of real estate markets in China	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	09-19 CAGR
Residential GFA completed ('000 sq.m.)	596,290.0	634,430.0	743,190.5	790,432.0	787,406.2	808,682.6	737,773.6	771,851.9	718,151.2	660,157.5	680,110.0	1.3%
Residential GFA sold ('000 sq.m.)	861,848.9	933,766.0	965,284.1	984,675.1	1,157,226.9	1,051,877.9	1,124,122.9	1,375,399.3	1,447,887.7	1,479,244.2	1,501,432.9	5.7%
Residential ASP (RMB per sq.m.)	4,459.0	4,725.0	4,993.2	5,429.9	5,849.8	5,933.0	6,472.4	7,203.0	7,613.8	8,544.1	9,284.9	7.6%

Source: CEIC and National Bureau of Statistics

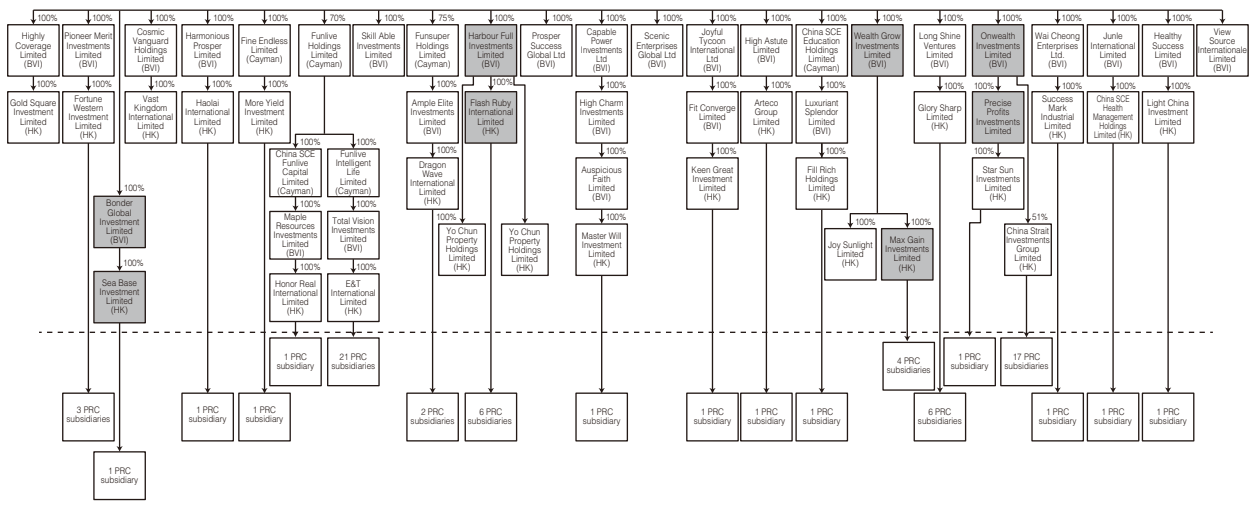
CORPORATE STRUCTURE

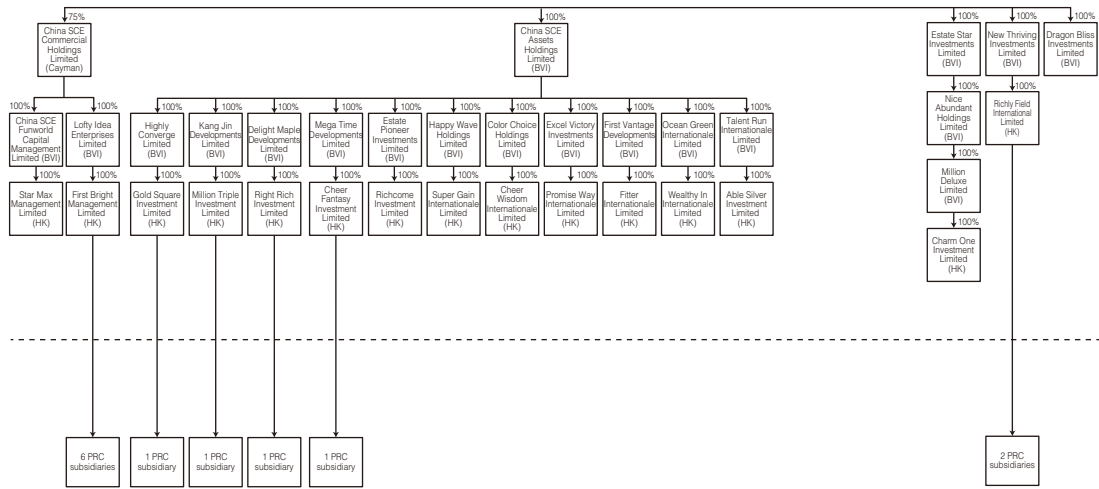
The following chart shows our corporate structure^{(1),(2)} as of June 30, 2020.



Notes:

- (1) This structure chart of the Company omits joint ventures, associates and certain immaterial subsidiaries of the Company and does not reflect changes after June 30, 2020.
- (2) The English names of certain of the above companies represent the best efforts by the management of the Company to transcribe the Chinese names of such companies, as no English names have been registered.





BUSINESS

OVERVIEW

We are a well-known PRC real estate developer headquartered in Shanghai with nationwide operations covering property development, property investment and property management. We were honored as one of the Best 50 Real Estate Developers of China (中國房地產開發企業50強) from 2015 to 2020, one of the Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths (中國房地產上市公司綜合實力50強) from 2015 to 2020, one of the Best 5 China Real Estate Listed Companies of Risk Management and one of Best 10 of Regional Operations of China Real Estate Developers (中國房地產開發企業區域運營10強) from 2015 to 2020 consecutively, according to China Real Estate Research Association, China Real Estate Association and China Real Estate Appraisal Centre. We were also honored as one of the Fortune China 500 (財富中國500強) by the Fortune magazine (《財富》雜誌) from 2016 to 2020 consecutively. We primarily focus on the development of high quality, mid-end to high-end residential real estate projects in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area, the West Taiwan Strait Economic Zone and the Central Western Region. We have historically focused on the West Taiwan Strait Economic Zone and in recent years, expanded into first-tier and quality second-tier cities as well as strong third-tier cities in other parts of China, including Beijing, Tianjin, Shanghai and Hangzhou, and the percentage of our land bank located in the Bohai Rim Economic Zone and Yangtze River Delta Economic Zone in our total land bank continues to increase. As of June 30, 2020, approximately 6.2 million sq.m., or 18.6% of our total land bank, was located in the Bohai Rim Economic Zone; approximately 9.4 million sq.m., or 28.4% of our total land bank, was located in the Yangtze River Delta Economic Zone; approximately 6.0 million sq.m., or 18.2% of our total land bank, was located in the West Taiwan Strait Economic Zone; approximately 8.4 million sq.m., or 25.6% of our total land bank, was located in the Central Western Region; and approximately 3.0 million sq.m., or 9.2% of our total land bank, was located in the Guangdong-Hong Kong-Macao Greater Bay Area.

As of June 30, 2020, we, together with our joint ventures and associates, had a land bank with an aggregate GFA of approximately 33.0 million sq.m., of which approximately 20.1 million sq.m. was attributable to us, comprising:

- (i) investment properties with an aggregate GFA of 1,592,865 sq.m.;
- (ii) completed properties held for sale with an aggregate GFA of 1,028,573 sq.m.;
- (iii) projects under development with an aggregate planned GFA of 9,258,253 sq.m.;
- (iv) projects held for future development with an aggregate planned GFA of 8,388,338 sq.m.; and
- (v) projects held by our JVs and Associates with an aggregate planned GFA of 12,758,698 sq.m.

In the six months ended June 30, 2020, we, together with our joint ventures and associates, acquired 10 projects in total with an aggregate above-ground GFA of approximately 3.3 million sq.m., all of which were acquired through bidding. The average land cost was approximately RMB5,853 per sq.m..

Our property development projects are generally situated in prime locations in major cities, as well as areas with natural scenic surroundings and convenient access to transportation. We believe that we have established a reputable brand for developing high quality residential properties and providing premium pre- and post-sales services to our customers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, our revenue was RMB16,105.2 million, RMB17,782.9 million, RMB21,369.8 million (US\$3,024.7 million), RMB10,422.8 million and RMB15,135.2 million (US\$2,142.2 million), respectively, and our profit was RMB3,448.6 million, RMB3,676.8 million, RMB4,023.5 million (US\$569.5 million), RMB2,194.0 million and RMB2,516.6 million (US\$356.2 million), respectively. Our shares have been listed on the HKSE since February 5, 2010 under stock code 1966.HK.

COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

Well-known real estate developer with nationwide operations and growing presence in first-tier and quality second-tier cities as well as strong third-tier cities

We are a well-known PRC real estate developer with nationwide operations and we have demonstrated a track record of success historically. Building on our in-depth experience, we have established our presence in first-tier and quality second-tier markets in the Bohai Rim Economic Zone (land bank of approximately 6.2 million sq.m. across 33 projects), the West Taiwan Strait Economic Zone (land bank of approximately 6.0 million sq.m. across 43 projects), the Yangtze River Delta Economic Zone (land bank of approximately 9.4 million sq.m. across 54 projects), the Guangdong-Hong Kong-Macao Greater Bay Area (land bank of approximately 3.0 million sq.m. across 12 projects) and the Central Western Region (land bank of approximately 8.4 million sq.m. across 27 projects) which are economically prosperous regions in China.

Diversified and strategically located land bank

We have a diversified and strategically located land bank, acquired through various channels at relatively low cost to support our future development. As of June 30, 2020, we, together with our joint ventures and associates, had a diversified and strategically located land bank with an aggregate GFA of approximately 33.0 million sq.m., of which approximately 20.1 million sq.m. was attributable to us. We believe that our land bank is sufficient to meet our operational needs for the next three to four years.

In terms of the diversified locations, as of June 30, 2020, 18.6% of our total land bank was located in the Bohai Rim Economic Zone, 28.4% in the Yangtze River Delta Economic Zone, 18.2% in the West Taiwan Strait Economic Zone, 25.6% in the Central Western Region and 9.2% in the Guangdong-Hong Kong-Macao Greater Bay Area. Most of them are located in the key development areas in those regions.

We believe that we enjoy relatively low cost on land bank acquisition because of our operating flexibility and experience. We conduct comprehensive research and analysis at the land selection and evaluation stage and try to identify the future growth potential of a land site for each property development. We are also flexible in securing quality land bank via various channels. We have generally acquired land through participating in open tenders. We have also selectively acquired project companies that have access to suitable sites and established joint ventures with other developers. We believe our strength in land bank acquisition strategy allows us to use our working capital more efficiently, to maintain a healthy profit margin and to respond more effectively to changing market conditions.

Commitment to quality delivery, with stringent cost control

We have established a brand for developing high quality residential properties in the mid and mid-high end product segments. In recognition of our strong brand, we were honored as one of the Best 50 Real Estate Developers of China (中國房地產開發企業50強) from 2015 to 2020, one of the Best 50 of China Real Estate Developers Brand Value (中國房地產開發企業品牌價值50強) from 2015 to 2020, one of the Best 50 China Real Estate Listed Companies of with Strong Comprehensive Strengths (中國房地產上市公司綜合實力50強) from 2015 to 2020, one of the Best 5 China Real Estate Listed Companies of Risk Management and one of Best 10 of Regional Operations of China Real Estate Developers (中國房地產開發企業區域運營10強) from 2015 to 2020 consecutively, according to China Real Estate Research Association, China Real Estate Association and China Real Estate Appraisal Center. We were also honored as one of the Fortune China 500 (財富中國500強) by the Fortune magazine (《財富》雜誌) from 2016 to 2020 consecutively. Furthermore, our brand has been recognized as a Famous Trademark in Fujian Province (福建省著名商標) since 2010, and a China Well-known Trademark (中國馳名商標) since 2014. In 2017, our “世邦泰和” Property Management were awarded “the Golden Medal Property Management of 2017” (2017 金牌物業獎) by China Property Management Institute. In 2019 and 2020, we ranked among “Top 100 Property Management Companies in China” (全中國物業服務百強企業) by China Index Academy.

We have a long-term working relationship with reputable construction and landscape designers such as Belt Collins International (HK) Limited, Steve Leung Design Group Limited and Aedas. We believe these relationships have enabled us to offer high quality properties to our customers, as evidenced by a number of quality-related awards we have received.

Our centralized project management system helps us to achieve the high quality standards of our properties, while maintaining stringent cost control. Our detail-oriented project management system helps us to minimize any deviation from pre-approved budgets and identify and resolve potential problems as early as possible in the project development cycle. The system comprises a set of comprehensive policies and guidelines on property development such as the Key Performance Indicator system, management principles that are Specific, Measurable, Attainable, Realistic and Time-Based, or SMART Principles and detailed business-flow control procedures. The system safeguards the delivery of high quality products and effective cost control, with input and monitoring from our various departments at each stage of project development.

Well-balanced capital and financial management

In addition to operational diligence, our senior management places a strong emphasis on the financial and capital management of our company. We have formulated a prudent set of capital and financial management policies, to serve the best interest of all our stakeholders. We maintain a well-balanced cash and short-term debt profile to ensure a strong liquidity position. We also manage our debt position to maintain a strong credit profile, while supporting growth.

We adopt diversified funding channels, including onshore loans and offshore debt markets, as well as equity capital markets. See “Description of Other Material Indebtedness” for a description of our various offshore indebtedness including syndicated loans and senior notes. We also issued domestic bonds with a low coupon rate to refinance our trust loans and other indebtedness. We have strong long-term relationships with banks including Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, China Merchants Bank Co., Ltd., Ping An Bank Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, BOC Hong Kong (Holdings) Limited, The Bank of East Asia, Limited and CMB Wing Lung Bank Limited.

Experienced and dedicated professional management team

Our management team has extensive experience in the PRC real estate industry. Stability is one of the key pillars for our business development. Over the past five years our key management members have remained substantially unchanged and proactive. They have solid track records of development projects in first-, second- and strong third-tier cities, with an average experience in relevant industries of about 20 years.

Our Chairman, Mr. Wong Chiu Yeung, who plays a pivotal role in managing our daily operations and in formulating our business strategies, has more than 20 years of experience in the property development industry. Through his business experience with leading Japanese joint venture partners (Sumitomo (S.H.I.) Construction Machinery Co., Ltd. and IHI Construction Machinery Limited), Mr. Wong has accumulated abundant experience in developing and maintaining a professional and detail-oriented management culture and applies that experience in managing our Company. Mr. Wong was honored as the eighth among Hurun Philanthropy List 2018 (2018胡潤慈善榜) according Hurun Research Institute, seventeenth among 2018 Forbes China Philanthropy List (2018福布斯中國慈善榜) by Forbes China and seventh among 2019 Forbes China Philanthropy List (2019福布斯中國慈善榜) by Forbes China. Other members of our management team are also highly experienced, having had previous roles at internationally renowned enterprises, state-owned enterprises in the PRC or at renowned real estate developers.

Our management is strongly supported by a team of well-trained and highly motivated professional staff. We are selective in our hiring process and endeavor to recruit and train employees who have the potential to become long-term and effective management staff. We have implemented an incentive scheme, combining a performance-based bonus system with a career development platform. In addition, our practice of recruiting and retaining top talent with local knowledge and overseas experience has also enabled us to capitalize on their collective expertise to develop our business.

BUSINESS STRATEGIES

We utilize the following key business strategies:

Focus on first-tier and quality second-tier cities as well as strong third-tier cities in China

We plan to focus on the first-tier and quality second-tier as well as strong third-tier markets, such as Shanghai, Beijing, Tianjin, Shenzhen and Hangzhou, where we believe that the rigid demand for housing will remain for a prolonged period. These markets offer attractive demand-supply dynamics which allow for more resilient residential property prices. We will also actively seek opportunities to expand into strong third-tier cities, where the real estate market is expected to benefit from beneficial local policies and spillover effects of the neighboring first-tier or quality second-tier cities. To facilitate our nationwide expansion, we relocated our headquarters to Shanghai in 2017. We intend to leverage our brand name and well-established development capability to build and enhance our market share in these economically prosperous markets. We adjust our operation and marketing strategies to cater to the demands in the regions we plan to enter. For example, in response to the high real estate prices, we plan to provide relatively small units in certain cities to make such units more affordable. In the regions with demands for household upgrading, we provide relatively small villas and more spacious three-room units. We will recruit and retain top talent with local knowledge and expertise in these regions.

Continue to expand our land bank prudently

We intend to continue to expand our land bank in strategic locations through participating prudently in open tenders. In addition, we plan to continue to selectively acquire project companies from third-party enterprises, and establish joint ventures with other developers to create synergies and diversify investment risks. In doing so, we intend to continue to employ a strategy of gradual and prudent land bank expansion at a reasonable cost. We make investment decisions based on thorough research and analysis that takes into account a number of important factors, including our financial capacity, the expected return of potential projects and the future cashflow profile of such project.

Enhance our brand recognition to distinguish ourselves from competitors

We believe we have established a reputable brand in the market that is associated with high quality products. We intend to continue to commit ourselves to developing high quality and innovative real estate projects, including landmark properties in prime locations. We continue to diligently select construction materials for our development projects in order to achieve a quality level which is consistent with our brand image and the positioning of our properties.

We also recognize that customer loyalty is critical to our success. We intend to continue to provide highly professional property management services to our customers to enhance the long-term value of our property developments. As part of this strategy, we intend to provide professional property management services to all of our future property developments.

Continue to focus primarily on residential property development while selectively develop and hold quality commercial properties

The residential property development business has been, and will continue to be, our core business segment. However, in view of the steady and recurring revenue that can be generated by commercial real estate projects, we have begun to diversify our project portfolio by selectively developing and holding quality commercial properties. We believe our financial performance and liquidity will benefit from such recurring revenue from our commercial properties.

Further improve our capital and financing structure

Our business is capital-intensive in nature. We aim to continue to improve our capital and financing structure to secure financing for our future property development projects on favorable terms. We intend to continue to strengthen our capital base through our retained earnings, while utilizing our access, as a Hong Kong listed company, to the international equity and debt markets. To reduce our finance costs, we will actively seek to diversify our funding channels, and use financing sources with lower interest expenses, including domestic bonds or syndicated loans, to replace the sources with higher interest expenses. We intend to continue to implement prudent business development and capital management policies to foster a well-balanced financial profile with strong credit strength, cash flow, profitability and growth.

OUR PROPERTY DEVELOPMENT BUSINESS

Overview

As of June 30, 2020, our property development projects are located in 54 cities in China.

Most of our property development projects are developed in multiple phases and at any point in time each phase may be in a different stage of development. As of June 30, 2020, our land bank, which comprises property development projects at various stages of development, are classified into the following four categories:

Investment properties — we consider a project to be an investment project if the interests in land and buildings are 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 purposes; or for sale in the ordinary course of business.

Projects held for sale — we consider that a property development project is completed and held for sale or investment if we have received the completion and acceptance certificate for the property from the government authorities but have not yet delivered the property.

Projects under development — we consider that a property development project is under development after the construction commencement permit has been issued by the government authorities but the completion and acceptance certificate has not been issued.

Projects held for future development — we consider that a property development project is held for future development if (i) the relevant land use right certificates have been obtained from the government authorities but the construction commencement permit has not yet been issued, or (ii) a property development project is contracted to be acquired when we have entered into the land grant contract or have successfully tendered for the parcel of land for the project but have not yet obtained the land use right certificate from the government authorities.

In the six months ended June 30, 2020, we actively expand into more cities with potential such as Fuzhou, Weifang, Xuchang, Zhangjiagang, Jieyang, Shaoguan and Xiangtan to diversify our land bank. As of June 30, 2020, our land bank had an aggregate GFA of 33.0 million sq.m., of which approximately 20.1 million sq.m. was attributable to us. Our investment properties had a total GFA of 1,592,865 sq.m., our projects under development had a total planned GFA of 9,258,253 sq.m., our projects held for future development had a total planned GFA of 8,388,338 sq.m., and our projects held for sale had a total planned GFA of 1,028,573 sq.m. Projects held by our JVs and associates had an aggregate planned GFA of 12,758,698 sq.m.

The following tables set out details of our property development projects as of June 30, 2020 in accordance with the classifications above:

Project name	City	Area	Tier	Total GFA (sq.m.)	Attributable Percentage	Attributable GFA (sq.m.)	
Investment Properties							
World City	世界城	Beijing	Bohai Rim Economic Zone	First-tier	30,899	100%	30,899
Royal Terrace	雍景臺	Beijing	Bohai Rim Economic Zone	First-tier	22,640	100%	22,640
The Regent	天峰	Beijing	Bohai Rim Economic Zone	First-tier	143,291	70%	100,318
Yanjiao Funlive	燕郊方隅	Yanjiao	Bohai Rim Economic Zone	Third-forth-tier	26,043	55%	14,324
SCE Plaza (Phase 2)	中駿廣場二期	Shanghai	Yangtze River Delta Economic Zone	First-tier	155,606	61%	95,153
Skyline Tower	天悅廣場	Shanghai	Yangtze River Delta Economic Zone	First-tier	66,576	100%	66,576
The Paramount	天環	Shanghai	Yangtze River Delta Economic Zone	First-tier	24,627	100%	24,627
The Glamour	天驕	Shanghai	Yangtze River Delta Economic Zone	First-tier	2,498	100%	2,498
Zhoupu Funlive	周浦方隅	Shanghai	Yangtze River Delta Economic Zone	First-tier	13,664	100%	13,664
Parkview Bay	柏景灣	Hangzhou	Yangtze River Delta Economic Zone	Second-tier	46,380	96%	44,622
Future Sci-Tech City Funlive	未來科技城方隅	Hangzhou	Yangtze River Delta Economic Zone	Second-tier	28,598	100%	28,598
Glory Sky	天蒼	Suzhou	Yangtze River Delta Economic Zone	Second-tier	50,785	91%	46,351
Funworld	世界城	Taizhou	Yangtze River Delta Economic Zone	Third-forth-tier	113,829	100%	113,829
Imperial Manor	環悅	Fuzhou	West Taiwan Strait Economic Zone	Second-tier	138,802	99%	137,067
SCE Building (Phase 1)	中駿集團大廈一期	Xiamen	West Taiwan Strait Economic Zone	Second-tier	10,098	100%	10,098

Project name	City	Area	Tier	Total GFA (sq.m.)	Attributable	Attributable
					Percentage	GFA (sq.m.)
SCE Building (Phase 2)	中駿集團大廈二期	Xiamen	West Taiwan Strait Economic Zone	Second-tier	36,597	36,597
Sapphire Peninsula	藍灣半島	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	7,441	7,441
Fortune Plaza (Phase 3)	財富中心三期	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	206,283	119,644
Gold Coast	黃金海岸	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	28,547	12,846
SCE Mall	中駿商城	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	23,848	23,848
World City (Nan'an)	南安世界城	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	44,777	44,777
The Paramount	天璟	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	42,723	42,723
SCE Mall (Shishi)	中駿商城 (石獅)	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	30,214	18,128
SCE Plaza	中駿廣場	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	36,992	36,992
Funworld	世界城	Putian	West Taiwan Strait Economic Zone	Third-forth-tier	82,855	74,777
Funworld	世界城	Heyuan	Greater Bay Area	Third-forth-tier	91,568	89,938
Funworld	世界城	Pingdingshan	Central Western Region	Third-forth-tier	86,684	82,150
		Sub-total			<u>1,592,865</u>	<u>1,341,125</u>
Completed Projects Held for Sale						
Marina Bay	柏景灣	Tianjin	Bohai Rim Economic Zone	Second-tier	18,688	18,688
Garden Terrace	雲景臺	Tianjin	Bohai Rim Economic Zone	Second-tier	16,910	16,910
Parkview Bay	柏景灣	Jinan	Bohai Rim Economic Zone	Second-tier	167,683	76,162
Royal Spring City (Phase 1)	御泉新城-湯泉香墅	Anshan	Bohai Rim Economic Zone	Third-forth-tier	21,195	14,837
The Royal Bay	雍景灣	Shanghai	Yangtze River Delta Economic Zone	First-tier	23,861	23,861
The Paramount	天璟	Shanghai	Yangtze River Delta Economic Zone	First-tier	10,466	10,466
The Glamour	天瓏	Shanghai	Yangtze River Delta Economic Zone	First-tier	12,276	12,276
Parkview Bay	柏景灣	Hangzhou	Yangtze River Delta Economic Zone	Second-tier	5,013	4,823
Orient Moon Bay	望月灣	Suzhou	Yangtze River Delta Economic Zone	Second-tier	60,688	30,344
Suzhou Project (Kunshan)	蘇州項目 (昆山)	Suzhou	Yangtze River Delta Economic Zone	Second-tier	81,761	65,409
6 Park Square	六號街區	Nanjing	Yangtze River Delta Economic Zone	Second-tier	68,933	44,289
Sunshine City	四季陽光	Zhenjiang	Yangtze River Delta Economic Zone	Third-forth-tier	76,658	73,254
Uptown	尚城	Nanchang	West Taiwan Strait Economic Zone	Second-tier	16,693	16,693
Enjoy City	悅城	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	29,163	11,665
Imperial Manor	瓏景閣	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	76,498	30,630
Gold Coast	黃金海岸	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	67,302	30,286
Sunshine City (Longhai)	四季花都	Zhangzhou	West Taiwan Strait Economic Zone	Third-forth-tier	64,084	57,676
Royal Bay	雍景灣	Chongqing	Central Western Region	Second-tier	175,532	164,473
Royal Terrace	雍景臺	Shangqiu	Central Western Region	Third-forth-tier	35,169	35,169
		Sub-total			<u>1,028,573</u>	<u>737,911</u>
Project Under Development						
Sunshine Mansion	四季家園	Beijing	Bohai Rim Economic Zone	First-tier	6,525	6,525
The Regent	天峰	Beijing	Bohai Rim Economic Zone	First-tier	38,340	26,842
Cloudview Terrace/Imperial Terrace	雲景臺/宸景臺	Beijing	Bohai Rim Economic Zone	First-tier	135,285	134,636
Polaris Bay	宸景灣	Tianjin	Bohai Rim Economic Zone	Second-tier	79,031	75,095
River Coast	皓景灣	Tianjin	Bohai Rim Economic Zone	Second-tier	72,966	30,660
Galaxy	天寰	Tianjin	Bohai Rim Economic Zone	Second-tier	95,360	45,754
Gratifying Bay	悅景灣	Tianjin	Bohai Rim Economic Zone	Second-tier	77,056	50,649
Parkview Palace	麗景府	Qingdao	Bohai Rim Economic Zone	Second-tier	93,196	90,046
Parkview Bay	柏景灣	Jinan	Bohai Rim Economic Zone	Second-tier	190,708	86,620
SCE Uptown	尚都	Jinan	Bohai Rim Economic Zone	Second-tier	17,184	17,184
Royal Palace	雍景府	Jinan	Bohai Rim Economic Zone	Second-tier	166,193	158,066
Sunshine City	四季風華	Tangshan	Bohai Rim Economic Zone	Third-forth-tier	108,657	97,802
SCE International Community (Phase 5)	中駿國際社區五期	Linfen	Bohai Rim Economic Zone	Third-forth-tier	36,679	36,679
The Royal Bay	雍景灣	Dezhou	Bohai Rim Economic Zone	Third-forth-tier	198,086	79,254
Cloudview Terrace	雲景臺	Suzhou	Yangtze River Delta Economic Zone	Second-tier	115,786	109,823
Glory Sky	天蒼	Suzhou	Yangtze River Delta Economic Zone	Second-tier	136,988	125,029
6 Park Square	六號街區	Nanjing	Yangtze River Delta Economic Zone	Second-tier	110,654	71,095
Parkview Bay	柏景灣	Nanjing	Yangtze River Delta Economic Zone	Second-tier	59,225	26,023
Parkview Palace	中駿合景府	Ningbo	Yangtze River Delta Economic Zone	Second-tier	115,204	57,418
The Royal Bay	雍景灣	Nantong	Yangtze River Delta Economic Zone	Third-forth-tier	175,779	96,696
Golden Riviera	金水灣	Xuzhou	Yangtze River Delta Economic Zone	Third-forth-tier	88,106	61,683
Garden Terrace	雲景臺	Xuzhou	Yangtze River Delta Economic Zone	Third-forth-tier	185,854	177,899
Parkview Bay	柏景灣	Xuzhou	Yangtze River Delta Economic Zone	Third-forth-tier	200,182	140,147
Parkview City Phase 1	匯景城一期	Xuzhou	Yangtze River Delta Economic Zone	Third-forth-tier	452,957	208,723
Parkview Palace	悅景府	Jiaying	Yangtze River Delta Economic Zone	Third-forth-tier	121,765	113,083

Project name	City	Area	Tier	Total GFA (sq.m.)	Attributable	Attributable	
					Percentage	GFA (sq.m.)	
Parkview Mount	環峰	Taizhou	Yangtze River Delta Economic Zone	Third-fourth-tier	253,302	249,123	
Funworld	世界城	Taizhou	Yangtze River Delta Economic Zone	Third-fourth-tier	85,291	85,291	
The Royal Bay	雍景灣	Lianyungang	Yangtze River Delta Economic Zone	Third-fourth-tier	16,993	10,197	
Sunshine City	四季陽光	Zhenjiang	Yangtze River Delta Economic Zone	Third-fourth-tier	57,703	55,141	
Mansion Park	環園	Lishui	Yangtze River Delta Economic Zone	Third-fourth-tier	296,524	144,882	
Imperial Manor	環悅	Zhangjiagang	Yangtze River Delta Economic Zone	Third-fourth-tier	266,680	240,039	
Polaris Palace	天宸	Xiamen	West Taiwan Strait Economic Zone	Second-tier	111,167	51,192	
The Royal Bay	雍景灣	Nanchang	West Taiwan Strait Economic Zone	Second-tier	162,902	146,628	
Xintiandi	新天地	Nanchang	West Taiwan Strait Economic Zone	Second-tier	180,161	179,026	
Gold Coast	黃金海岸	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	76,611	34,475	
Parkview Palace	悅景府	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	135,358	81,215	
Imperial Manor	瓏景閣	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	43,511	17,422	
Fortune Plaza (Imperial Terrace)	財富中心·御金臺	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	30,988	30,988	
Parkview Palace	麗景府	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	139,443	97,624	
Sunshine Park	四季麗景	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	10,164	5,085	
Cloudview Palace	雲景府	Quanzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	190,963	172,077	
Cloudview Terrace	雲景臺	Zhangzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	4,921	3,691	
Royal Palace	雍景府	Zhangzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	88,990	71,201	
Cloudview Palace	雲景府	Zhangzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	138,439	59,390	
Parkview Palace	麗景府	Zhangzhou	West Taiwan Strait Economic Zone	Third-fourth-tier	73,866	66,487	
Royal Palace	雍景府	Shangrao	West Taiwan Strait Economic Zone	Third-fourth-tier	4,384	3,956	
Royal Palace (Dongtou)	東投雍景府	Shangrao	West Taiwan Strait Economic Zone	Third-fourth-tier	218,777	59,770	
Cloudview Terrace	雲景臺	Shangrao	West Taiwan Strait Economic Zone	Third-fourth-tier	227,506	219,384	
Parkview Bay	柏景灣	Putian	West Taiwan Strait Economic Zone	Third-fourth-tier	194,460	175,500	
The Royal Bay	雍景灣	Jiujiang	West Taiwan Strait Economic Zone	Third-fourth-tier	65,166	58,662	
Cloudview Palace	雲景華府	Shenzhen	Greater Bay Area	First-tier	29,680	28,196	
Royal Terrace	雍景臺	Foshan	Greater Bay Area	Second-tier	41,757	41,068	
Royal Terrace	雍景臺	Huizhou	Greater Bay Area	Third-fourth-tier	39,654	37,648	
The Royal Bay	雍景灣	Huizhou	Greater Bay Area	Third-fourth-tier	204,073	189,359	
Uptown	尚城	Huizhou	Greater Bay Area	Third-fourth-tier	142,530	136,629	
Funworld	世界城	Heyuan	Greater Bay Area	Third-fourth-tier	191,254	187,850	
Century Palace	時代名都	Shanwei	Greater Bay Area	Third-fourth-tier	141,570	130,697	
Royal Bay	雍景灣	Chongqing	Central Western Region	Second-tier	38,757	36,315	
Cloudview Terrace	雲景臺	Chongqing	Central Western Region	Second-tier	96,475	90,426	
Imperial Terrace	瓏景臺	Chongqing	Central Western Region	Second-tier	402,242	190,944	
Liberty Mountain	閱環山	Chongqing	Central Western Region	Second-tier	178,305	86,086	
Imperial Manor	環頌	Chongqing	Central Western Region	Second-tier	278,066	139,005	
Cloudview Pavilion	環悅	Zhengzhou	Central Western Region	Second-tier	117,353	105,629	
Cloud Valley	雲谷小鎮	Kunming	Central Western Region	Second-tier	403,312	271,227	
The Royal Bay	雍景灣	Luoyang	Central Western Region	Third-fourth-tier	137,153	109,942	
Elegant Garden	環園	Luoyang	Central Western Region	Third-fourth-tier	109,583	76,719	
Royal Terrace	雍景臺	Shangqiu	Central Western Region	Third-fourth-tier	133,077	133,077	
Parkview Palace	麗景府	Shangqiu	Central Western Region	Third-fourth-tier	65,431	55,721	
Cloudview Terrace	雲景臺	Shangqiu	Central Western Region	Third-fourth-tier	126,118	95,433	
Funworld	世界城	Pingdingshan	Central Western Region	Third-fourth-tier	229,827	217,807	
		Sub-total			<u>9,258,253</u>	<u>6,801,655</u>	
Projects Held for Future Development							
Cloudview Terrace/Imperial Terrace	雲景臺/宸景臺	Beijing	Bohai Rim Economic Zone	First-tier	245,819	244,639	
Qingdao Project	青島項目	Qingdao	Bohai Rim Economic Zone	Second-tier	396,800	379,777	
Funworld	世界城	Weifang	Bohai Rim Economic Zone	Third-fourth-tier	97,634	97,634	
Parkview Mount	環峰	Weifang	Bohai Rim Economic Zone	Third-fourth-tier	293,868	293,868	
Yanjiao Funlive	燕郊方隅	Yanjiao	Bohai Rim Economic Zone	Third-fourth-tier	26,419	14,530	
Royal Spring City (except Phase 1)	御泉新城 (一期除外)	Anshan	Bohai Rim Economic Zone	Third-fourth-tier	1,455,141	1,018,599	
SCE International Community (Except Phases 1-4)	中駿國際社區 (一期至四期除外)	Linfen	Bohai Rim Economic Zone	Third-fourth-tier	8,666	8,666	
Suzhou Project (Kunshan)	蘇州項目 (昆山)	Suzhou	Yangtze River Delta Economic Zone	Second-tier	518,118	414,497	
Seal of Highness	首鑿	Suzhou	Yangtze River Delta Economic Zone	Second-tier	206,131	96,284	
Parkview City Phase 2	匯景城二期	Xuzhou	Yangtze River Delta Economic Zone	Third-fourth-tier	269,540	124,204	
Imperial Manor	環悅	Zhangjiagang	Yangtze River Delta Economic Zone	Third-fourth-tier	58,117	52,311	
Imperial Manor	環悅	Fuzhou	West Taiwan Strait Economic Zone	Second-tier	191,260	188,869	
Xintiandi	新天地	Nanchang	West Taiwan Strait Economic Zone	Second-tier	379,063	376,675	
Funworld	世界城	Nanchang	West Taiwan Strait Economic Zone	Second-tier	216,195	213,514	

Project name		City	Area	Tier	Total GFA (sq.m.)	Attributable Percentage	Attributable GFA (sq.m.)
Gold Coast (except Phase 1 & 2)	黃金海岸 (一期及二期除外)	Quanzhou	West Taiwan Strait Economic Zone	Third-forth-tier	195,062	45%	87,778
Cloudview Terrace	雲景臺	Shangrao	West Taiwan Strait Economic Zone	Third-forth-tier	256,554	96%	247,395
Royal Terrace	雅景臺	Foshan	Greater Bay Area	Second-tier	69,196	98%	68,054
Uptown	尚城	Huizhou	Greater Bay Area	Third-forth-tier	40,479	96%	38,803
Royal Bay	雅景灣	Shaoguan	Greater Bay Area	Third-forth-tier	457,612	100%	457,612
Funworld	世界城	Heyuan	Greater Bay Area	Third-forth-tier	262,450	98%	257,778
Century Palace	時代名都	Shanwei	Greater Bay Area	Third-forth-tier	206,717	92%	190,841
Cloud Valley	雲谷小鎮	Kunming	Central Western Region	Second-tier	1,248,917	67%	839,897
Cloudview Terrace	雲景台	Shangqiu	Central Western Region	Third-forth-tier	110,131	76%	83,336
Funworld	世界城	Xiangtan	Central Western Region	Third-forth-tier	741,812	100%	741,812
Parkview Mount	環峰	Xuchang	Central Western Region	Third-forth-tier	167,188	100%	167,188
Imperial Manor	環頌	Xuchang	Central Western Region	Third-forth-tier	195,199	100%	195,199
Funworld	世界城	Pingdingshan	Central Western Region	Third-forth-tier	74,250	95%	70,367
		Sub-total			<u>8,388,338</u>		<u>6,970,127</u>
JV					<u>10,904,892</u>		<u>3,688,803</u>
Associates					<u>1,853,806</u>		<u>522,884</u>
		TOTAL			<u>33,026,727</u>	61%	<u>20,062,505</u>

	Total GFA (sq.m.)	Total GFA Percentage	Total Attributable GFA (sq.m.)	Total GFA (excluded IP) (sq.m.)
By region				
Bohai Rim Economic Zone	6,150,561	18.6%	3,920,978	5,922,994
West Taiwan Strait Economic Zone	6,014,076	18.2%	3,970,021	5,240,542
Greater Bay Area	3,042,011	9.2%	2,426,997	2,950,443
Yangtze River Delta Economic Zone	9,386,907	28.4%	4,680,651	8,753,556
Central Western Region	8,433,172	25.6%	5,063,858	8,346,488
	<u>33,026,727</u>	<u>100%</u>	<u>20,062,505</u>	<u>31,214,023</u>
By city				
Anshan	1,476,336	4.5%	1,033,436	1,476,336
Beijing	912,973	2.8%	681,033	711,449
Chengdu	183,048	0.6%	58,008	183,048
Chongqing	3,237,108	9.8%	1,345,018	3,237,108
Dezhou	198,086	0.6%	79,254	198,086
Foshan	558,511	1.7%	327,236	558,511
Fuzhou	330,062	1.0%	325,936	191,260
Hangzhou	518,181	1.6%	191,920	443,203
Heyuan	545,272	1.7%	535,566	453,704
Huizhou	426,736	1.3%	402,439	426,736
Jiangmen	174,039	0.5%	86,410	174,039
Jiaxing	616,595	1.9%	257,006	616,595
Jieyang	501,874	1.5%	268,000	501,874
Jinan	1,347,537	4.1%	625,100	1,347,537
Jiujiang	65,166	0.2%	58,662	65,166
Kunming	2,093,009	6.3%	1,329,795	2,093,009
Lianyungang	16,993	0.1%	10,197	16,993
Linfen	45,345	0.1%	45,345	45,345
Lishui	296,524	0.9%	144,882	296,524
Luoyang	246,736	0.7%	186,661	246,736
Meishan	342,120	1.0%	110,436	342,120
Nanchang	1,058,922	3.2%	954,845	1,058,922
Nanjing	1,634,594	4.9%	439,782	1,634,594
Nantong	243,712	0.7%	105,188	243,712
Ningbo	115,204	0.3%	57,418	115,204
Pingdingshan	390,761	1.2%	370,324	304,077
Putian	277,315	0.8%	250,277	194,460
Qingdao	489,996	1.5%	469,823	489,996
Quanzhou	2,350,841	7.1%	1,227,266	1,845,659
Shanghai	573,111	1.7%	351,021	179,352
Shangqiu	718,838	2.2%	453,788	718,838
Shangrao	707,221	2.1%	530,505	707,221
Shanwei	348,287	1.1%	321,538	348,287
Shaoguan	457,612	1.4%	457,612	457,612
Shenzhen	29,680	0.1%	28,196	29,680
Suqian	378,840	1.1%	110,848	378,840
Suzhou	1,537,787	4.7%	997,016	1,487,002
Taizhou (泰州)	452,422	1.4%	448,243	338,593
Taizhou (台州)	272,476	0.8%	93,568	272,476
Tangshan	108,657	0.3%	97,802	108,657
Tianjin	1,127,667	3.4%	468,829	1,127,667
Weifang	391,502	1.2%	391,502	391,502
Wuxi	591,232	1.8%	209,569	591,232
Xiamen	705,226	2.1%	341,732	658,531
Xiangtan	741,812	2.2%	741,812	741,812
Xuchang	362,387	1.1%	362,387	362,387
Xuzhou	1,334,634	4.0%	751,721	1,334,634
Yangzhou	118,920	0.4%	19,039	118,920
Yanjiao	52,462	0.2%	28,854	26,419
Yiwu	226,524	0.7%	72,488	226,524
Zhangjiagang	324,797	1.0%	292,350	324,797
Zhangzhou	519,323	1.6%	280,798	519,323
Zhengzhou	117,353	0.4%	105,629	117,353
Zhenjiang	134,361	0.4%	128,395	134,361
	<u>33,026,727</u>	<u>100%</u>	<u>20,062,505</u>	<u>31,214,023</u>
By tier				
First-tier	1,515,764	4.6%	1,060,250	920,481
Second-tier	15,645,437	47.4%	8,247,656	15,334,177
Third-forth-tier	15,865,526	48.0%	10,754,599	14,959,365
	<u>33,026,727</u>	<u>100%</u>	<u>20,062,505</u>	<u>31,214,023</u>

In this offering memorandum, we calculate the figures for the completed GFA based on figures provided in the relevant documents issued by government authorities. We then determine the construction period for the completed phases of our property development projects based on the relevant documents issued by government authorities or our own internal records, as applicable.

The information for the planned GFA and planned construction period that appears in this offering memorandum is based on our internal estimates, internal records or current business plans. The actual information may differ in material respects from our current estimates.

A property is considered to be sold after we have executed the sales contract, completed the development of the property and delivered the property to the customer. A property is considered to be pre-sold after we have executed the sales contract but have not yet delivered the property to the customer. A property is considered to have been delivered to the customer when the customer has signed the written confirmation of the delivery of the property.

OUR PROPERTY DEVELOPMENT PROCESS

Project Management System and Procedures

We attach great importance to our property development process. As such, we have developed a set of detailed and standardized operating procedures to which we strictly adhere to when conducting each of our project development processes. Our centralized management system and comprehensive budget management system minimize operational costs, improve efficiency, ensure rapid project development and consistent products. These processes are managed, coordinated and supervised centrally by our senior management at our headquarters and implemented by the dedicated departments of our regional offices and project companies. These operating procedures feature substantial input from, and undergo constant monitoring and supervision by, different departments in each stage of our development process to ensure effective arrangement and allocation of resources. Those procedures are also designed to enable real-time monitoring and supervision of each stage of our development process in order to help us identify and resolve potential problems as early as possible during the project cycle. We then are able to minimize material deviations from pre-approved budgets at each stage of our development process and better maintain our standards of quality across all of our projects.

Overview of the Development Process

Although the nature and sequence of specific planning and execution activities may vary from project to project, we have summarized below the core elements of the typical project development process for our properties:

We typically establish a separate project company to undertake the development of each project and to facilitate the project management.

Feasibility Study and Land Acquisition

Performing a feasibility study is the first step of our property development process. Our strategic development department and sales management department conduct feasibility studies based on factors such as the supply and demand in relevant real estate market, potential market growth, local urban planning and development policies, geographical location of the development sites, and the estimated cost of development. Other departments, including the audit and legal department, the design management department, financial management department and construction management department work closely together with our strategic development department to provide input based on their respective expertise. The strategic development department then prepares a feasibility study report for consideration and approval by our board.

Upon approval by our board, we will seek to acquire the site for the property development project. We generally acquire the land through participating in the competitive bidding, public auction, listing-for-sale process or acquiring project companies from other developers. For certain projects, we establish joint ventures with third parties who hold the relevant land use right to the site.

Obtaining Permits and Certificates

Real estate developers, like us, are only allowed to commence construction of a property development project upon obtaining the construction works commencement permit, which is only issued when the land use right certificate, the construction land planning permit and the construction works planning permit are obtained. Further details of such certificates and permits are set out below:

- **land use right certificate** — a certificate that proves the right of a party to use a parcel of land;
- **construction land planning permit** — a permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- **construction works planning permit** — a government approval for a developer's overall planning and design of the project and allowing a developer to apply for a construction works commencement permit; and
- **construction works commencement permit** — a permit required for commencement of construction work.

Financing

We have financed our projects primarily through bank and other borrowings, pre-sale proceeds of our properties, and equity and debt issuances.

Although the financing sources vary from project to project, we are required under relevant PRC regulations to finance at least 20% of the total project costs with our own funds when we develop ordinary commodity housing and finance at least 25% of the total project costs with our own funds when we develop other real estate projects.

Bank loans have been one of the primary sources of funding for our property development projects. As of June 30, 2020, our outstanding bank and other borrowings amounted to RMB23,242.7 million (US\$3,289.8 million). It is one of our strategies to optimize our capital and financing structure to secure sufficient financing for our future property development projects, which we intend to achieve through a combination of cash flow from operations and issuances of debt and equity securities.

Design

Our design management department is responsible for coordinating all design-related aspects of a project. By working closely with our external architectural, interior, landscaping and gardening design contractors, as well as our internal construction management department and sales and marketing department, our design management department seeks to ensure that we consistently develop high quality projects with innovative designs that appeal to potential purchasers. We have a team of experienced designers, 50% of whom have engineering experience.

Construction

After obtaining the land use right to a parcel of land, our in-house construction management team will start to prepare the land for construction and development, which includes the arranging for the fencing of the site.

Our construction management department arranges for the selection of construction contractors through a tender process. We typically conduct comprehensive due diligence on our contractors before inviting them to participate in the tender process, and the successful bidder is selected based on a variety of factors including its proposed fee, the proposed construction schedule, the quality of its construction works, the construction plan, proposed allocation of manpower, construction safety measures and standards, equipment and facilities proposed to be applied, and the industry experience of the project manager. Depending on the complexity and the scale of our project, some factors may outweigh others in determining the contractor that we select for a particular project.

Our construction contracts generally allow payments to be made upon the achievement of specific milestones throughout the construction process. We also generally retain 3% to 5% of the contract price for a period of one to two years after completion of the construction works and will apply such retained amount against any expense incurred by us to rectify any defects of the construction should the contractor fail to rectify such defects when called upon to do so. Equipment and construction materials required for our construction works are generally procured by our contractors at a pre-agreed price. In the event that the final purchase price of the equipment and construction materials procured increases or decreases by more than a pre-determined percentage from the pre-agreed price, payments to our contractors will be adjusted accordingly to reflect any such difference. Certain equipment, such as elevators and air-conditioning units, are procured centrally through our procurement department at our headquarters from pre-selected suppliers, who typically provide favorable price arrangements for our bulk purchases.

We are not responsible for any labor-related liabilities of our contractors. Under our construction contracts, the contractors are required to make an upfront payment of 3% of the contract price to guarantee the performance of their obligations under the contracts and we are entitled to apply such amount against any liability incurred by us as a result of any non-compliance by the contractors with applicable PRC laws and regulations concerning environmental protections, labor and safety issues.

Quality Control and Supervision

We place a strong emphasis on quality control to attempt to ensure that our property development projects not only comply with relevant regulations but also meet very high standards.

We have standardized and detailed quality control procedures in place for our various functional departments. We have also established stringent internal quality control procedures which apply to the design construction of, and quality of materials used in, our property development projects. Our quality control system ensures project quality and cost to be controlled effectively in design stage.

Quality control procedures are managed, coordinated and supervised in a centralized manner by our senior management and are implemented by each functional department through on-site inspections and supervision on a daily basis. In addition, we engage independent and certified engineering supervisory companies to conduct quality and safety control checks on all building materials, equipment and construction in accordance with relevant PRC regulations.

We are of the view that our commitment to quality control and developing high quality properties are widely recognized and we have received various awards in recognition of the quality of our properties.

Sales and Marketing

Our sales and marketing department is based at our headquarters and is responsible for conducting market research, determining our marketing strategy, and formulating specific marketing plans for each property development project. Each of our project companies also has its own sales and marketing team to implement highly customized strategies for individual projects. The sales and marketing strategy varies from project to project and is formulated after taking into account a wide range of factors, including market conditions, the phase and location of the project, positioning of the project, targeted customer group and sales progress.

We generally market our property development projects through advertisements in newspapers and on billboards. We also set up on-site reception centers and showroom offices at each of our project sites to display information relating to, and promote the sales of, the relevant project.

We maintain a strong relationship with our customers, which plays a vital role in the development and success of the Group, and have established the “SCE Club” (“中駿會”) for such purpose. With the objective of “Leading a Life Full of Love and Thoughtful Services (愛心生活·用心服務)” and by serving our customers, the SCE Club is committed to reinforcing communications and contacts between us and our customers. By being attentive to, and adopting in a timely manner, our customers’ advice and recommendations for the Group, we have built a strong foundation for introducing more premium properties to satisfy the community demand. In addition, we build customer trust and realize our branding strategy by providing professional and customized aftersales services of high standards.

Pre-sales and Sales

The sales process of our property development projects typically occurs phase by phase and will generally commence prior to the completion of their construction. The proceeds from the pre-sales are an important source of financing for our property developments.

Payment and End-user Financing

Our customers are required to make payment for the properties in one lump sum. Most customers make their payments by mortgage loans from banks and other financial institutions.

In line with market practice, we cooperate with various banks for the provision of mortgage loans to our customers and provide guarantees for these mortgages generally until completion of the construction and delivery of the relevant property ownership certificates to the mortgagee banks. As of December 31, 2017, 2018 and 2019 and June 30, 2020, the amount of our outstanding guarantees for such mortgage loans was RMB14,947.9 million, RMB15,912.0 million, RMB20,307.2 million and RMB19,738.2 million (US\$2,793.8 million), respectively.

Delivery of Properties

Once a property development project has passed the requisite government inspections and is ready for delivery, we will notify the purchaser and deliver the properties to complete the sales process. Our pre-sale and sale contracts stipulate the time frame for delivery and we are required to make penalty payments to our customers for any delay in delivery. Please refer to “Risk Factors — Risks Relating to Our Business — We face contractual risks relating to the pre-sale of properties, including the risk that property developments cannot be completed, or cannot be completed on time.”

Property Management and Post-Sales Services

We currently provide property management services to a number of projects that we have developed but we intend to provide property management services for all of the properties we develop in the future. Our property management services are provided through our non-wholly-owned subsidiaries, SCE Xiamen Property Management, SCE Fujian Property Management and SCE Beijing Property Management under the “世邦泰和” brand. Our “世邦泰和” brand was

honored as one of the “50 Property Management Enterprise Brands of the Best Value in China (中國物業管理企業品牌價值50強) by China Real Estate Association and China Real Estate Appraisal Centre in 2015, 2016 and 2017. In 2019 and 2020, we ranked among “Top 100 Property Management Companies in China” (全中國物業服務百強企業) by China Index Academy.

Our property management services generally include security, maintenance of common facilities, gardening and landscaping. The property management contract with owners of the properties sets out the scope and standard of the services to be provided by our property management companies.

On January 20, 2021, we announced on the HKSE that we are considering a possible spin-off and separate listing of our commercial property management and operational services and residential property management services businesses on the main board of HKSE. The separate listing of the spin-off group on the main board of the HKSE constitutes a spin-off by our Company under Practice Note 15 to the Listing Rules. The HKSE has confirmed that we may proceed with the proposed spin-off. On January 28, 2021, the proposed spin-off entity, SCE Intelligent Commercial Management Holdings Limited (“SCE CM”), submitted the listing application form (Form A1) to the HKSE. Upon completion of the proposed spin-off and listing, the Company is expected to have an interest of not less than 50% in SCE CM and SCE CM will remain as a subsidiary of the Company. See “Risk Factors — Our business strategies, plans for expansion to new business sectors, and new products or divestiture of existing businesses may not be successful.”

COMPETITION

Competition within the real estate industry in the PRC is highly intense. Our major competitors include large domestic state-owned and private real estate developers, and foreign-funded real estate developers who focus on developing residential properties in the PRC. We compete on the basis of size of land bank, geographical location, quality of real estate offered, brand recognition, ability to secure financing, pricing and design. A number of our competitors have greater financial, marketing, land bank and other resources than we do, as well as greater economies of scale, broader name recognition, a better track record, and more established status in the real estate markets where we operate.

For more information on competition, please see “Risk Factors — Risks relating to our business — We face intense competition from other real estate developers.”

AWARDS AND RECOGNITION

We have been often recognized by professional institutions for our ability and the quality of our products, including:

- From 2015 to 2020, we were awarded one of the Best 10 of Regional Operations of China Real Estate Developers (中國房地產開發企業區域運營10強) by China Real Estate Research Association, China Real Estate Association and China Real Estate Appraisal Centre.
- From 2015 to 2020, we were awarded one of the Best 5 China Real Estate Listed Companies of Risk Management (中國房地產上市公司風險控制5強) of Shanghai E-house Real Estate Research Institute, China Real Estate Association and China Real Estate Appraisal Centre.
- In 2017, we were awarded 2017 Best 10 of China Real Estate Developers in Shanghai by China Real Estate Association and the China Real Estate Appraisal Center of Shanghai E-house Real Estate Institute.
- In 2017, our “世邦泰和” Property Management were awarded “the Golden Medal Property Management of 2017” (2017金牌物業獎) by China Property Management Institute.

- In 2019 and 2020, we ranked among “Top 100 Property Management Companies in China” (全中國物業服務百強企業) by China Index Academy.
- From 2015 to 2020, we were recognized as one of the Best 50 China Real Estate Listed Companies with Strongest Comprehensive Strengths (中國房地產上市公司綜合實力50強), one of the Best 50 of China Real Estate Developers (中國房地產開發企業50強), according to China Real Estate Association. From 2016 to 2020, we were also honored as one of the Fortune China 500 (財富中國500強) by the Fortune Magazine (《財富》雜誌).

EMPLOYEES

As of June 30, 2020, we had 8,238 full-time employees. We provide employees with competitive remuneration and benefits and has adopted share option schemes to provide incentives and rewards to, among others, the employees. We review the employee remuneration plan at least annually to ensure that it maintains market competitiveness and allows the employees to receive fair and equal rewards. The promotion decision is also based on considering the employees’ assessment results, experience, skills and personal characteristics. In addition, we have established China SCE College to provide employees with three types of training programs, namely business courses, quality skills and cultural identity. We have launched our management trainee programme since 2011 for positions in selected functional areas in order to build pipeline for succession. Since our inception, we have not experienced any significant turnover of staff nor any disruption to our business operations due to labor disputes. Our directors consider that our Group has maintained good relationship with our employees.

INSURANCE

Real estate developers like us are not required under PRC laws and regulations to maintain insurance coverage in respect of their property development operations. In line with industry practice, we do not maintain insurance coverage on our properties developed for sale except for those developments for which we are required to maintain insurance coverage under the financing documents. In addition, we generally do not take out insurance against personal injuries that may occur during the construction of our properties. According to relevant PRC laws and regulations, the general contractors and construction companies are responsible for safety control during the course of construction and are required to maintain accident insurance for their construction workers. The general contractors and construction companies will also bear the risks and liabilities arising from tortious acts committed on work sites under the terms of our construction contracts.

We carry social insurance for our employees and maintain, on a voluntary basis, personal accident insurance and supplementary commercial insurance.

We believe that the insurance coverage taken out by us is typical and in line with the industry practice for similar operations. However, there is a risk that we do not have sufficient insurance coverage for losses, damages and liabilities that may arise from our business operations. Please refer to “Risk Factors — Risks relating to our business — We may suffer losses and claims arising from uninsured risks.”

SOCIAL, HEALTH AND SAFETY MATTERS

Under PRC laws and regulations, an enterprise is required to execute employment contracts with its employees according to the relevant laws and regulations and shall not rescind the employment contract without cause. Employees are entitled to breaks and take annual leave based on the law and provisions as stipulated in their employment contracts. An enterprise is also required to have health and safety policies and provide health and safety training to its staff. It is also required to provide its staff with a safe and hygienic working environment as well as necessary protective equipment. In addition, an enterprise is required

to purchase basic medical insurance, pension insurance, maternity insurance, unemployment insurance, and personal injury insurance for its staff and pay the relevant insurance premiums in accordance with relevant laws and regulations.

We believe that by protecting the interests of our employees, we can enhance employee morale and improve our long-term retention of quality personnel.

In order to comply with the relevant laws and regulations, we participate in various defined retirement contribution plans organised by the PRC provincial and municipal governments for our employees. We pay in favour of our employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing provident fund. Our human resources department personnel are responsible for our social, health and safety issues.

INTELLECTUAL PROPERTY RIGHTS

As of June 30, 2020, we owned 85 trademarks in the PRC and Hong Kong. We conduct our property development and property management business under various trademarks, all of which are registered in the PRC and owned by us. We are also the registered owner of the domain name “www.sce-re.com”.

ENVIRONMENTAL AND SAFETY MATTERS

We are subject to certain laws and regulations of the PRC concerning environmental protection. Pursuant to these laws and regulations, we are required to undergo environmental assessments with respect to each property development project. An environmental assessment report is required to be prepared by qualified independent experts and submitted by a real estate developer before the relevant authorities will grant a permit for commencement of construction works. Upon completion of the property development, the relevant environmental authorities will inspect the property to ensure compliance with applicable environmental standards and regulations before the property is delivered to the purchaser. Save for the fee paid to independent experts for the preparation of environmental assessment report as mentioned above, we were not required to pay, nor did we incur, any cost of compliance with applicable environmental laws and regulations during the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2020. In addition, we do not expect to incur any material cost of compliance with applicable environmental laws and regulations in the future.

LEGAL PROCEEDINGS

In the ordinary course of business, we have occasionally been involved in legal proceedings, the nature of which are primarily contractual disputes with customers and contractors, which is common in our industry. However, we are not aware of any litigation, arbitration or claim pending or threatened against us which would have a material adverse effect on the results of our operations or financial condition.

REGULATION

LEGAL SUPERVISION RELATING TO REAL ESTATE SECTOR IN THE PRC

A. Establishment of a property development enterprise

Pursuant to the Law of the People's Republic of China on Administration of Urban Real Estate (the "Urban Real Estate Law") (《中華人民共和國城市房地產管理法》) enacted by the Standing Committee of the National People's Congress on July 5, 1994, effective on January 1, 1995, and amended on August 30, 2007, August 27, 2009, and August 26, 2019, respectively, a real estate developer is defined as "an enterprise which engages in real estate development and business for the purposes of making profits." Under the Regulations on Administration of Development of Urban Real Estate (the "Development Regulations") (《城市房地產開發經營管理條例》) enacted by the State Council, effective on July 20, 1998, and amended on January 8, 2011, March 19, 2018, March 24, 2019, March 27, 2020 and November 29, 2020, a property development enterprise must satisfy the following requirements: (a) have its own name and organizational structure; (b) have fixed business premises (c) have a registered capital of not less than RMB1 million; (d) have four or more full-time professional property/construction technicians and two or more full-time accounting officers with relevant qualifications and (e) other conditions prescribed by laws and administrative regulations. The Development Regulations also stipulates that the People's government of the provinces, autonomous regions or municipalities directly under the central government may impose more stringent requirements regarding the registered capital and qualifications of professional personnel of a property development enterprise according to the local circumstances.

Pursuant to the Development Regulations, applications for registration of a property development enterprise have to be submitted to the department of administration of industry and commerce. The applicant must file a record with the property development authority in the location of the registration authority within 30 days of the receipt of its business license.

In May 2009, the State Council issued the Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets (《關於調整固定資產投資項目資本金比例的通知》) and stipulated that the minimum capital ratio was 20% for ordinary commodity housing projects and affordable housing projects and 30% for other real estate projects. The capital ratio for other real estate projects was further decreased to 25% in September 2015.

B. Foreign-invested real estate enterprises

Pursuant to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the "Negative List") jointly enacted by NDRC and MOFCOM on June 23, 2020 and effective on July 23, 2020, foreign investment in the construction and operation of nuclear power plant (controlled by the Chinese parties), civil airport (controlled by the Chinese parties) fall within the category of "not prohibited" and a foreign investment access permit must be applied for investment in the industry within this category.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly enacted the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (Jianzhufang 2006 No. 171) (《關於規範房地產市場外資准入和管理的意見》). According to this circular, foreign investment in real estate market must comply with the following requirements:

- (a) foreign institutions or individuals purchasing real estate in China which is not for their own residential use shall follow the principle of commercial existence and apply for the establishment of foreign-invested enterprises under the regulations of foreign investment in real estate. Foreign institutions and individuals can only carry on their business pursuant to the approved business scope after obtaining the approvals from relevant authorities and upon completion of the relevant registrations;
- (b) if the total investment of a foreign-invested property development enterprise exceeds or equals US\$10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than US\$10 million, the amount of the registered capital shall follow the existing regulations;
- (c) the commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishing and effecting the registration of foreign-invested real estate enterprises and issuing approval certificates for foreign-invested enterprises and business licenses which are only effective for one year. After paying for the land use right, the enterprises should apply for the land use right certificate by presenting the above-mentioned approval certificates and business licenses. With the land use right certificate, the enterprises will receive an official approval certificate for a foreign-invested enterprise from the commerce authorities, and shall replace the business license with one that has the same operational term as the formal approval certificate for foreign-invested enterprises in the department of administration of industry and commerce, and then apply for tax registration with the tax authorities;
- (d) transfers of projects of or shares in foreign-invested real estate enterprises, and the acquisitions of domestic real estate enterprises by foreign investors should strictly follow the relevant laws, regulations and policies to obtain approvals. Foreign investors should submit: (i) the guarantee letters for the performance of the State-owned Land Use Right Grant Contracts, the Construction Land Planning Permit and the Construction Work Planning Permit; (ii) the Certificate of Land Use Right; (iii) the certification on alteration of archive files issued by construction authorities; and (iv) the certification on the payment of tax issued by the relevant tax authorities; and
- (e) when acquiring domestic real estate enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for the employees, settle bank loans and pay the consideration in one single payment using internal funds. Foreign investors with irregular financial track records shall not be allowed to conduct any of the aforementioned activities.

On August 14, 2006, the General Office of MOFCOM enacted the Notice on Relevant Issues concerning the Carrying out the Opinions on Regulating the Access and Management of Foreign Capital in the Real Estate Market (《關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知》). According to this notice, if the total investment of a foreign-invested property development enterprise exceeds US\$3 million, the registered capital must be no less than 50% of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered capital must be no less than 70% of the total estimated investment. When a foreign investor who merges with a domestic property development enterprise by transferring equity or by other means or by purchasing equity from other Chinese shareholders of a foreign-invested property development enterprise, proper arrangements must be made for the original employees of the merged companies, bank debts must be settled and the entire consideration for the transfer must be paid off within three months after the date of the issue of the business license or the effective day of the equity transfer agreement.

On May 23, 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in the Real Estate Sector in the PRC (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) (“Notice No. 50”), amended in October 2015, which stipulates the following requirements for the approval and supervision of foreign investment in the real estate sector:

- (i) foreign investment in the PRC real estate sector relating to luxury properties should be strictly controlled;
- (ii) before obtaining an approval for the establishment of real estate entities with foreign investment, (a) both land use right certificates and housing ownership right certificates should be obtained, or (b) contracts for obtaining land use rights or housing ownership rights should be entered into;
- (iii) entities which have been set up with foreign investment need to obtain an approval before they expand their business operations into property development; and entities which have been set up for property development operations need to obtain a new approval in order to expand their real estate business operations;
- (iv) acquisitions of real estate entities and foreign investment in the real estate sector by way of “round-trip” investment (返程投資) should be strictly regulated; foreign investors should not avoid approval procedures by changing actual controlling persons;
- (v) parties with interests in real estate entities with foreign investment should not in any way guarantee a fixed investment return;
- (vi) registration shall be immediately effected according to applicable laws with MOFCOM regarding the set-up of real estate entities with foreign investment approved by local PRC governmental authorities;
- (vii) foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effect foreign exchange settlements regarding capital account items to those who fail to file with MOFCOM; and
- (viii) for those real estate entities which are wrongfully approved by local authorities for establishments of set ups, (a) MOFCOM should carry out investigations and order punishment and rectification, and (b) foreign exchange administrative authorities should not carry out foreign exchange registrations for them.

On April 6, 2010, the State Council released the Several Opinions of the State Council on Further doing a Good Job in the Utilization of Foreign Investment (《國務院關於進一步做好利用外資工作的若干意見》), under which foreign-invested projects with a total investment (including increased registered capital) less than US\$300 million within the category of encouraged or permitted foreign investment, other than the projects required by the Category of Investment Projects Examined and Approved by the Government to be examined and approved by relevant departments under the State Council, can be examined and approved by the relevant local authorities. Except for approvals from the relevant departments under the State Council that are explicitly specified by laws and regulations, the aforementioned departments can shift the authority of approval to the relevant local authority, in the context of strengthened supervision.

According to the Notice Regarding the Administrative Provisions on the Foreign Exchange in Domestic Directive Investment by Foreign Investors and Relevant Supporting Documents (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) issued by SAFE on May 11, 2013, amended in October 2018 and December 2019, foreign-invested real estate companies who raise funds offshore for the purposes of injecting such funds into the companies through a capital increase shall make foreign exchange related registration at the SAFE where the companies are incorporated. Further, according to Notice on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration

Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) issued by SAFE on February 13, 2015, effective from June 1, 2015 and amended on December 30, 2019, foreign exchange related registration can only be made at banks at the companies' places of incorporation. However, as stipulated in Notice on Further Strengthening the Regulation on Approval and Supervision of Foreign Direct Investment in Real Estate Industry in the PRC (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) jointly issued by MOFCOM and SAFE on May 23, 2007 and amended in October 2015, the local foreign exchange authorities will no longer process applications for settlement and sale of foreign exchange submitted by real estate enterprises with foreign investment that have not registered with MOFCOM.

The Notice regarding Promulgation of Administrative Measures on Foreign Debt Registration (《國家外匯管理局關於發佈外債登記管理辦法的通知》) issued by SAFE on April 28, 2013, which became effective on May 13, 2013, and amended in May 2015 and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (《外債登記管理操作指引》), stipulates foreign debt registration of foreign invested real estate enterprises as follows, among other things, (i) that the local foreign exchange authorities will no longer process foreign debt registrations or foreign debt applications for the settlement of foreign exchange submitted by real estate enterprises with foreign investment that obtained approval certificates from and registered with MOFCOM on or after June 1, 2007; (ii) foreign invested real estate enterprises established before June 1, 2007, which have increased the registered capital on and after June 1, 2007, may raise foreign debt financing limited to the balance of the difference between its total investment and registered capital. Provided that such difference between its total investment and registered capital after increasing its capital is smaller than that of before increasing its capital, the smaller one shall prevail; (iii) foreign invested real estate enterprises of which the land use rights certificate has not been obtained, or the project capital is less than 35% of the total investment of the project, are prohibited from raising foreign debt financing, and SAFE will not process foreign debt registration or foreign debt applications for the settlement of foreign exchange for such enterprises.

According to Provisions on Approving and Filing Foreign-invested Projects (《外商投資項目核准和備案管理辦法》) promulgated by the NDRC in May 2014 and amended in December 2014 and February 2016, in the following projects listed in the Guidance Catalog which require shareholding of China-incorporated shareholders, approval from NDRC is required for encouraged projects with total investment (including capital increase) of US\$300 million or above and restricted projects with total investment of US\$50 million or above. The encouraged projects which require shareholding of China-incorporated shareholders with total investment (including capital increase) less than US\$300 million shall be approved by the local government. Real estate projects falling to the restricted category and other restricted projects with total investment (including capital increase) less than US\$50 million shall be approved by the provincial government.

On March 30, 2015, SAFE issued the Notice on the Reform of the Administration of Foreign Exchange Registered Capital Settlement for Foreign-Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知》), effective from June 1, 2015 and amended on December 30, 2019, under which a reform on the administration of foreign exchange capital settlement for foreign-invested enterprises is carried out in China and foreign-invested enterprises may make equity investments within China by utilizing the RMB funds converted from their foreign exchange registered capital. Besides the remittance of equity transfer payments in the original foreign currency, foreign-invested enterprises mainly engaged in investment activities (including foreign-invested investment companies, foreign-invested venture capital investment enterprises and foreign-invested equity investment enterprises) are permitted to directly convert foreign capital funds into RMB funds or transfer the RMB funds converted from the foreign capital account to the bank account of the investee enterprise based on the actual investment scale on the premise that the domestic investment projects are authentic and in compliance. Equity investments within China remitted through equity transfer payments in the original foreign currency by general foreign-invested enterprises other than the above enterprises shall be governed by the current domestic reinvestment laws and regulations. If such foreign-invested enterprises make equity investments in China by using converted RMB funds, the investee enterprise shall first register this domestic reinvestment activity with the administration of the foreign exchange (bank) of its place of incorporation and

open a corresponding RMB account for depositing the converted RMB funds. The foreign-invested enterprises shall then transfer the converted RMB funds into the RMB account of the investee enterprise based on the actual investment scale. If the investee enterprise continues to make equity investments in China, the above principles shall apply. On June 9, 2016, SAFE issued the Notice to Reform and Regulate the Administration Policies of Capital Account Settlement (《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》) to further reform foreign exchange capital settlement nationwide.

On August 19, 2015, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Circular on Adjusting the Admittance and Administration of Foreign Capital in the Real Estate Market (《關於調整房地產市場外資准入和管理有關政策的通知》). This circular changes the registered capital requirement in the Circular on Standardizing Admittance and Administration of Foreign Capital into the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》) and stipulates that when a foreign investor establishes a property development enterprise in China where the total investment amount is more than US\$10 million and less than US\$30 million (inclusive), such enterprise's registered capital must be not less than 40% of its total investment amount (where the total investment amount is less than US\$12.5 million, such enterprise's registered capital must be not less than US\$5 million), and where the total investment amount is US\$30 million or more, such enterprise's registered capital must be not less than one third of its total investment amount (where the total investment amount is less than US\$36 million, such enterprise's registered capital must be not less than US\$12 million).

On September 14, 2015, the NDRC issued the Circular of the National Development and Reform Commission on Promoting the Administrative Reform of the Record-filing and Registration System for the Issuance of Foreign Debts by Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》) to remove the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system.

Under the Guidance Catalog, the construction and operation of cinema (controlled by Chinese parties) fall within the restricted category, and other real estate development falls within the category of industries in which foreign investment is permitted.

Pursuant to the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) issued by the State Council on March 15, 2019 and effective on January 1, 2020, the approval and record-filing of foreign investment projects are subject to the relevant state regulations. On December 30, 2019, the MOFCOM and the State Administration for Market Regulation issued Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which provides specific procedures for the information reporting of foreign investment.

Pursuant to the Notice on Promulgating the Catalogue of Investment Projects Subject to the Approval of the Government (2016 Version) (《國務院關於發佈政府核准的投資項目目錄(2016年本)的通知》) issued by the State Council on December 12, 2016 and effective from the same day, in the following projects listed in the Guidance Catalog, restricted projects with total investment (including capital increase) of US\$300 million or above shall be subject to the approval of the competent investment department under the State Council, among which projects with total investment (including capital increase) of US\$2 billion or above shall be reported to the State Council for registration; restricted projects with total investment (including capital increase) less than US\$300 million shall be subject to the approval of provincial government.

C. Qualifications of a real estate developer

(a) Classifications and assessment of a property development enterprise's qualification

Under the Provisions on Administration of Qualifications of Real Estate Developers (the "Provisions on Administration of Qualifications") (《房地產開發企業資質管理規定》) promulgated by the Ministry of Construction in March 2000, and amended in May 2015, December 2018 and September 16, 2019, a real estate developer shall apply for registration of its qualifications in

accordance with the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of property without a qualification classification certificate for property development.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes. Developers with class 1 qualifications shall be subject to preliminary examination and approval by the construction authority under the People's government of the relevant province, autonomous region or municipality directly under the central government and then final approval by the construction authority under the State Council. Procedures for approval of developers with class 2 or lower qualifications shall be formulated by the construction authority under the People's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. After a newly established real estate developer reports its establishment to the property development authority, the latter shall issue a provisional qualification certificate to the eligible developer within 30 days of receipt of the report. The provisional qualification certificate shall be effective for one year from the date of its issuance. The real estate development authority can extend the validity period for not more than two years after considering the actual business condition of the enterprise. The real estate developer shall apply for a qualification classification by the property development authority within one month before the expiry of the provisional qualification certificate.

On December 28, 2005, the Construction Department of Fujian Province issued the Notice of revising the Implementation Provision on Administration of Qualification of Real Estate Development Enterprise in Fujian Province (Min Jian Fa 2005 No. 85) (the "Fujian Real Estate Developers Provisions") (《關於修改福建省〈房地產開發企業資質管理規定〉實施細則的通知》), a property developer must register with the local property development authorities within 30 days after receiving its business license. The latter must issue a Provisional Qualification Certificate to the eligible developers within 20 business days after receiving application filings. The Provisional Qualification Certificate will be effective for one year from the date of its issuance. The property development authority may extend the validity to a period of no more than two years due to the situation of the property developers.

According to the Fujian Real Estate Developers Provisions, the property development enterprises in Fujian Province shall be classified into four classes according to the specific situation of the enterprises. The class 1 qualification is preliminarily examined by the provincial construction authority for submission to MOHURD for approval. The class 2 qualification is preliminarily examined by the city and county construction authority for submission to the provincial construction authority for approval. The class 3 qualification is preliminarily examined by the county (city) construction authority for submission to the prefecture construction authority for approval. The class 4 qualification is examined and approved by the city and county construction authority. After obtaining the qualification the property development enterprises can engage in the development of real estate of a certain scale according to their qualification classification.

(b) Business scope of a real estate developer

Under the Provisions on Administration of Qualifications, 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. A class 1 real estate developer is not restricted as to the scale of a real estate project to be developed and may undertake a property development project anywhere in the country. A class 2 real estate developer or lower may undertake a project with a GFA of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the People's government of the relevant province, autonomous region or municipality.

Under the Fujian Real Estate Developers Provisions, a property developer must, after obtaining its qualification certificate, only engage in the development of the property according to its qualification classification: (i) the construction scale of a property development project undertaken by a real estate developer with class 1 qualification is not subject to restriction; (ii)

a real estate developer with class 2 qualification may undertake any real estate development project with a gross floor area less than 250,000 sq.m.; (iii) a property developer with class 3 qualification may undertake any property development project with a gross floor area of 200,000 sq.m. or less; and (iv) a real estate developer with class 4 qualification may undertake any property development project with a gross floor area of 100,000 sq.m. or less.

(c) Annual inspection of a real estate developer's qualification

Pursuant to the Provisions on Administration of Qualifications, the qualification of a real estate developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 real estate developer's qualification. Procedures for annual inspection of developers of a class 2 or lower qualification shall be formulated by the construction authority under the People's government of the relevant province, autonomous region or municipality.

D. Development of a real estate project

(a) Land for property development

Under the Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Land in Urban Areas (the "Interim Regulations on Assignment and Transfer") (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) promulgated and enforced by the State Council on May 19, 1990 and amended on November 29, 2020, a system of grant and transfer of the right to use state-owned land is adopted. A land user shall pay a premium to the state as consideration for the grant of the land use right within a certain term, and the land user may transfer, lease, mortgage or otherwise commercially use the land use right within the term of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate Law, the land administration authority under the local government of the relevant city or county shall enter into a land grant contract with the land user for the grant of the land use right. The land user shall pay the land premium as provided for by the land grant contract. After payment in full of the land premium, the land user shall register with the land administration authority and obtain a land use right certificate evidencing the acquisition of land use right. The Development Regulations provide that land use right for a site intended for property development shall be obtained through government grant, except for land use right which may be obtained through allocation pursuant to PRC laws or the stipulations of the State Council.

Under the Regulations on the Assignment of State-owned Land Use Right through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有土地使用權規定》) enacted by MLR on May 9, 2002 and amended on September 28, 2007, land for commercial use, tourism, entertainment and commodity housing development is assigned by way of competitive bidding, public auction or listing-for-sale. The procedures are as follows:

- (i) the land authority under the People's government of the city and county (the "assignor") shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars such as land parcel, the qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit for the bid;
- (ii) the assignor shall conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive bidding, public auction or listing-for-sale;
- (iii) after determining the winning tender or the winning bidder by either competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposits to other bidding or auction applicants;

- (iv) the assignor and the winning tender or winning bidder shall enter into a contract for the grant of state-owned land use right according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the land premium for the grant of the state-owned land use right; and
- (v) the winning tender or winning bidder should apply for the land registration after paying off the land grant premium in accordance with the state-owned land use right grant contract. The People's government above the city and county level should issue the "Land Use Permit for State-owned Land."

According to the Notice of MLR on Strengthening the Administration of Land Supply and Promoting the Sustainable Sound Development of Real Estate Market (《關於加強土地供應管理促進房地產市場持續健康發展的通知》) enacted by MLR on September 24, 2003, and amended on December 3, 2010, land use for luxurious commodity houses shall be stringently controlled and applications for land use for building villas will not be accepted.

On March 31, 2004, MLR together with the Ministry of Supervision issued the Notice in Respect of Enforcing and Supervising the Transfer of Operative Land Use Right Through Tenders, Bidding and Public Auction (《關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知》), which expressly required that after August 31, 2004, no land use right transfer in the form of agreement by the excuse of historical difficulties will be allowed.

On April 29, 2008, MLR and SAIC jointly issued the Notice on Distribution of Model Text of the State-owned Land for Construction Use Rights Assignment Contract ("Model Text of Contract") (《關於發佈〈國有建設用地使用權出讓合同〉示範文本的通知》). The Notice stipulates the form of the contract that should be used in the transfer of use right to the state-owned construction land.

Under the Regulations on the Assignment of State-owned Land for Construction Use Rights through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) enacted by MLR on September 28, 2007, and enforced on November 1, 2007, land for industrial use (including land for warehouses, but not including land for mining), commercial use, tourism, entertainment and commodity housing development or more than two competing users on one piece of land shall be assigned by way of competitive bidding, public auction or listing-for-sale. The assignee should obtain the land use right certificate after paying off the total premium. The relevant land use right certificates will not be issued prior to full payment of the appropriate land premium, and no land use right certificates will be issued pro rata based on partial payment received.

In May 2012, MLR and NDRC issued the Circular on the Release and Implementation of the Catalog for Restricted Land Use Projects (2012 Version) and the Catalog for Prohibited Land Use Projects (2012 Version) (《關於發佈實施〈限制用地項目目錄(2012年本)〉和〈禁止用地項目目錄(2012年本)〉》). In this circular, MLR and NDRC set forth a ceiling for the land granted by local governments for the 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.

In November 2009, MOF, MLR, 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》). The notice raises the minimum down-payment on land premiums to 50% of the total premium and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

On March 8, 2010, MLR promulgated the Circular on Strengthening Real Estate Land Supply and Supervision (the "Circular") (《關於加強房地產用地供應和監管有關問題的通知》). Under the Circular, the price for a given land grant is required to be at least 70% of the benchmark price for land in the surrounding locality and the bidding deposit for such land grant is required to be equal to at least 20% of the applicable minimum land premium. The Circular has made further strict provisions on land grant contract administration. The land grant

contract shall be entered into within 10 working days after the land grant deal is closed, the down-payment of 50% of the land premium (taking into account any deposits previously paid) shall be paid within one month as of the date of land grant contract, and the remaining fee shall be paid within one year, in accordance with provisions of the land grant contract.

(b) Real estate project development

i. Commencement of a real estate project and the idle land

When carrying out the feasibility study for a construction project, a construction company shall make a preliminary application for construction on the relevant site to the land administration authority of the same level as the project approval 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 MLR in March 1999, amended in November 2016, and the Measures for Administration of Preliminary Examination of Construction Project Sites (《建設項目用地預審管理辦法》) promulgated by MLR in July 2001 and amended in October 2004, November 2008 and November 2016, respectively. After receiving the preliminary application, the land administration authority shall carry out a preliminary approval of various matters relating to the construction project in compliance with the overall zoning plans and land supply policy of the government, and shall issue a preliminary approval report in respect of the project site. The land administration authority under the government of the relevant city or county shall sign a land grant contract with the land user and issue an approval for construction site to the construction company.

Under the Urban Real Estate Law, those who have obtained the land use right through an assignment must develop the land in accordance with the terms of use and within the period of commencement prescribed in the land use right assignment contract. According to the Measures on Disposing Idle Land (《閒置土地處置辦法》) enacted and enforced by MLR on April 28, 1999, which was revised and adopted by MLR and come into effect as of July 1, 2012, the idle land refers to the State-owned construction land where the user of State-owned construction land fails to commence the construction within one year as of the construction commencement date as agreed on and specified in the Contract for Paid Use of State-owned Construction Land or the Land Allocation Decision. Besides, state-owned construction land, whose development and construction has been suspended for one year where the construction has commenced with its development area accounts for less than one third of the total development area or its actual investment accounts for less than 25% of the total investment, may also be identified as idle land.

Except for that construction commencement is postponed due to the behaviors of governments or relevant governmental departments, other kind of idle land may be disposed through the following manners:

- (A) In the event that the construction has not commenced for one year, the departments of land and resources at the municipal or county level shall, upon approval of the local people's governments at the same level, issue the Decision on the Collection of the Charges for Idle Land to users of State-owned construction land, and shall collect the charges for idle land at 20% of cost of land transfer or land allocation. The charges for idle land shall not be listed into the production cost.
- (B) In the event that the construction has not commenced for two years, the departments of land and resources at the municipal or county level shall, upon approval of people's governments with approval right, issue the Decision on Recovering the Right to Use State-owned Construction Land to users of State-owned construction land, and recover the right to use the State-owned construction land without compensation in accordance with relevant laws and regulations. Where idle land is under mortgage, copies of the Decision shall be sent to the relevant mortgagees.

On January 3, 2008, the State Council promulgated the Notice on Enhancing the Economical and Intensive Use of Land (《關於促進節約集約用地的通知》). This notice states, among other things, that (i) policies in relation to the forfeiture of land use right without

compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) MLR and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land added price (增值地價) on idle land; (v) in relation to the supply of residential land, planning conditions such as plot ratio limits and the number and type of flats that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grant for residential development will consist of low rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vi) financial institutions are required to exercise caution when approving financing for any real estate developer who, after one year from the commencement date stipulated in the land grant contract, fails to complete at least one-third of the development of their project or provide at least 25% of the total investment in the project.

ii. Planning of a real estate project

According to the Urban and Rural Planning Law of the People's Republic of China (replacing the previous City Planning Law of the People's Republic of China (《中華人民共和國城市規劃法》) since January 2008) (《中華人民共和國城鄉規劃法》), the Administrative Measures on Planning of Grant and Transfer of Urban State-owned Land Use Right (《城市國有土地使用權出讓轉讓規劃管理辦法》) enacted by the Ministry of Construction on December 4, 1992 and effective on January 1, 1993, and amended on January 26, 2011, after signing an assignment contract, a real estate developer shall apply for an Opinion on Construction Project's Site Selection if the land was obtained through government allocation and a Permit for Construction Site Planning from the city and county planning authority with the assignment contract. After obtaining a Permit for Construction Site Planning, a real estate developer shall organize the necessary planning and design work with regard to planning and design requirements, and apply for a Permit for Construction Work Planning from the city planning authority with the relevant approval documents.

iii. Construction of a real estate project

On November 17, 2007, the General Office of the State Council issued the Circular of on Strengthening and Regulating the Administration on Newly-commenced Projects (Guo Ban Fa 2007 No. 64) (《國務院辦公廳關於加強和規範新開工項目管理的通知》), which set forth the conditions that shall be met by various investment projects when they are commenced:

1. the projects are subject to the industrial policies, development and construction plans, land supply policies and market-access criteria of the State;
2. the formalities of approval, ratification or filing of the projects must have been completed;
3. the location and distribution of the projects within the planning area must be in line with urban and rural planning, and relevant planning approval formalities for the projects have gone through in accordance with urban and rural planning law;
4. the approval of use of the land, which is subject to application, must be obtained, the contract of compensated use of the state-owned land shall have been signed or the decision on the allocation of the state-owned land has been obtained, and the land for the construction of profit-making investment projects shall be gained by means of competitive bidding, public auction or listing-for-sale in accordance with relevant provisions;
5. the examination and approval of environmental impact assessment must have been completed in accordance with the provisions on the category administration of environmental impact assessment as well as examinations and approval of environmental impact assessment at different levels;

6. the energy-saving appraisal and examination of the fixed asset investment projects must have been completed in accordance with relevant provisions;
7. the construction unit must have, prior to the commencement of the construction projects, acquired the construction permit or work-start report in accordance with relevant provisions of the Construction Law, and taken specific measures which can guarantee the quality and safety of the construction projects; and
8. the projects must meet other relevant requirements as specified by the laws and regulations of the State.

After obtaining the Permit for Construction Work Planning, a real estate developer shall apply for a Construction Permit from the construction authority above the county level according to the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) enacted by the Ministry of Construction on October 15, 1999, revised and effective on July 4, 2001, and further revised and effective on October 25, 2014, and further revised and effective on September 28, 2018.

iv. Completion of a real estate project

According to the Development Regulation, the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) enacted and enforced by the State Council on January 30, 2000 and most recently amended on April 23, 2019, the Administrative Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) enacted by the Ministry of Construction in April 2000 and amended on October 19, 2009 and the Notice of the Ministry of Housing and Urban-Rural Development on the Rules for the Confirmation of the Completion of Housing Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》) enacted by the Ministry of Housing and Urban-Rural Development and effective on December 2, 2013, after completion of work for a project, a real estate developer shall apply for the acceptance examination to the property development authority under the People's government on or above the county level and report details of the acceptance examination, upon which the "record of acceptance examination upon project completion" is issued. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, separate acceptance examinations may be carried out for each completed phase.

E. Real estate transactions

(a) Transfer of real estate

According to the Urban Real Estate Law and the Provisions on Administration of Transfer of Urban Real Estate (《城市房地產轉讓管理規定》) enacted by the Ministry of Construction on August 7, 1995 and revised on August 15, 2001, a property owner may sell, give or otherwise legally transfer a property to another person or legal entity. When transferring a building, the ownership of the building and the land use right attached to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the property administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use right were originally obtained by assignment, the real property may only be transferred on the condition that: (i) the assignment price has been paid in full for the assignment of the land use right as provided by the assignment contract and a land use right certificate has been obtained; and (ii) if development is to be carried out according to the assignment contract and is a project in which buildings are being developed, development representing more than 25% of the total investment has been completed or in case of a whole land lot development project, construction work has 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 leveled and made ready for industrial or other construction purposes. In addition, if the construction of the real property has been completed, the real property should be transferred after the certificate of the housing title is obtained.

If the land use right were originally obtained by assignment, the term of the land use right after transfer of the property shall be the remaining portion of the original term provided by the land use right assignment contract after deducting the time that has been used by the former land users. In the event that the transferee intends to change the use of the land provided in the original assignment contract, consent shall first be obtained from the original assignor and the planning administration authority under the local government of the relevant city or county and an agreement to amend the land use right assignment contract or a new land use right assignment contract shall be signed in order to, *inter alia*, adjust the land use right assignment price accordingly.

If the land use right were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary power of approval as required under the regulations of the State Council. If the People's government vested with the necessary power of approval approves such a transfer, the transferee shall complete the formalities for transfer of the land use right, unless the relevant statutes require no transfer formalities, and pay the transfer price according to the relevant statutes.

(b) Sale of commodity properties

Under the Regulatory Measures on the Sale of Commodity Properties (《商品房銷售管理辦法》) enacted by the Ministry of Construction on April 4, 2001 and effective June 1, 2001, sale of commodity properties can include both pre-completion and post-completion sales.

i. Permit of Pre-completion sale of commodity properties

According to the Development Regulations and the Measures for Administration of Pre-completion Sale of Commodity Properties (the "Pre-completion Sale Measures") (《城市商品房預售管理辦法》) enacted by the Ministry of Construction on November 15, 1994 and revised on August 15, 2001 and July 20, 2004, respectively, the pre-completion sale of commodity properties shall be subject to a permit system, under which a real estate developer intending to sell a commodity building before its completion shall make the necessary pre-completion sale registration with the property development authority of the relevant city or county to obtain a permit of pre-completion sale of commodity properties. A commodity building may only be sold before completion provided that: (A) the assignment price has been paid in full for the assignment of the concerned land use right and a land use right certificate has been issued; (B) a Permit for Construction Work Planning and a Permit for Construction of Work have been obtained; (C) the funds invested in the development of the commodity properties put to pre-completion sale represent 25% or more of the total investment in the project and the progress of work and the completion and delivery dates have been ascertained; and (D) the pre-completion sale has been registered and a Permit for Pre-completion Sale of Commodity Properties has been obtained. In addition, regulations of certain local governments, such as Guangdong and Tianjin, have set forth additional conditions to be satisfied in connection with the application for a pre-completion sale permit.

According to the Administrative Provisional Measures on the Pre-sale of Commercial Housing in Fujian Province (the "Pre-sale Measures in Fujian") (《福建省商品房預售管理暫行辦法》) promulgated by the Fujian Provincial Department of Construction on December 14, 2005 and effective on January 1, 2006, the following conditions shall be fulfilled for the pre-sale of commodity properties in Fujian Province: (i) land premium has been paid in full and State-owned land use right certificates have been issued; (ii) construction work planning permit and Permit for Construction Work have been obtained; and (iii) the funds invested in the development of the commodity properties put to pre-sale represent 25% or more of the total investment in the project (more than 20% of the total floors has been completed in line with the design) and the progress of work and delivery dates have been ascertained.

According to the Measures of Beijing Municipality on the Administration of Urban Real Estate Transfer (《北京市城市房地產轉讓管理辦法》) enacted by the People's Government of Beijing Municipality on September 2, 2003 and revised on December 6, 2008, the following conditions shall be fulfilled for the pre-sale of commodity properties in Beijing: (i) for properties that are affordable housing, land premium has been paid in full for the land use right and the land use right certificates have been obtained, the approval for construction on urban land shall be obtained; (ii) the construction project planning permit and construction work permit have been obtained; (iii) the funds invested in the development of the commodity properties put to pre-sale represent no less than 25% of the total investment in the construction project, as compared to the amount of the commodity house sold in advance; and (iv) the completion day has been ascertained, and the requirement of maximal period of pre-sale promulgated by the municipal administrative departments of real estate is met.

According to the Regulations of Tianjin Municipality on the Administration Commercial Housing (《天津市商品房管理條例》) by the Standing Committee of People's Congress of Tianjin Municipality on October 24, 2002 and revised on July 29, 2016, the following conditions shall be fulfilled for the pre-sale of commodity properties in Tianjin: (i) the property developer has legal person qualification and corresponding real estate development qualification grade; (ii) legal state-owned land use rights have been obtained; (iii) the investment plan for the construction of commodity properties has been approved or the filing notice of enterprise fixed assets investment projects, the construction project planning and construction permit have been obtained; (iv) there is a registered property management plan or a signed preliminary property management contract; (v) the development and construction of commodity property projects has achieved the project image position prescribed by the municipal people's government; (vi) the progress and delivery dates have been ascertained and (vii) there is a commodity property sales plan.

According to the Detailed Rules of the Measures for the Administration of Advance Sale of Urban Commodity Houses in Shanghai Municipality (《上海市實施〈城市商品房預售管理辦法〉細則》) promulgated and implemented by the Shanghai Municipal Housing and Land Administration Bureau on June 4, 1995, the following conditions shall be fulfilled for the pre-sale of commodity properties in Shanghai: (i) land premium has been paid in full and state-owned land use right certificates have been issued or the construction land allocation procedures have been completed, and the construction land permit has been obtained; (ii) construction work planning permit has been obtained; (iii) the completion of the construction and installation project accounted for more than 25% of the total investment in the construction of the construction project or the foundation project below the construction design floor. The construction progress and completion date have been determined, and the supporting projects such as water, electricity and coal have been implemented; (iv) the pre-sales fund supervision agreement has been signed with the bank registered with the municipal government; and (v) where a domestic-funded development and operation enterprise applies for the pre-sale of export-oriented commercial housing, it must hold the approval of the special operation right for the export of commodity properties approved by the Municipal Housing and Lands Bureau (including the former Municipal Housing Management Bureau).

According to the Administrative Provisional Measures on the Pre-sale of Urban Commercial Housing in Jiangxi Province (《江西省城市商品房預售管理辦法》) promulgated and implemented by the Jiangxi provincial government on April 18, 1995, the following conditions shall be fulfilled for the pre-sale of commodity properties in Jiangxi Province: (i) the property developer has the business license issued by the industry and commerce administrative department and the real estate development enterprise qualification certificate issued by the construction department of Jiangxi; (ii) land premium has been paid in full and the state-owned land use certificate, the construction land planning license, the urban housing demolition license, the construction project planning license and the construction permit have been obtained and the project quality supervision procedures have been completed; (iii) the funds invested in the development of the commodity properties put to pre-sale represent 25% or more of the total investment in the project or the basic foundation of the project has been completed; (iv) the old city reconstruction project has completed demolition, and the resettlement plan has implemented, the resettlement housing has started construction; and (v) the post-sale management, maintenance and service assurance measures have been adopted.

According to the Regulations on commercial housing sales in Shandong Province (《山東省商品房銷售條例》) promulgated by the Standing Committee of the Tenth People's Congress of Shandong Province on March 31, 2005 and implemented on July 1, 2005, the following conditions shall be fulfilled for the pre-sale of commodity properties in Shandong Province: (i) land premium has been paid in full and State-owned land use right certificates have been issued; (ii) real estate project development management certificate and construction work planning permit and Permit for Construction Work have been obtained; and (iii) the funds invested in the development of the commodity properties put to pre-sale represent 25% or more of the total investment in the project or the basic project has been completed and the completion and delivery dates have been ascertained.

According to the Measures for supervision of the real estate market in Shenzhen Municipality (《深圳市房地產市場監管辦法》) by the People's Government of Shenzhen Municipality on July 9, 2010 and revised on February 8, 2017, the following conditions shall be fulfilled for the pre-sale of commodity properties in Shenzhen: (i) the land premium has been paid and the real estate rights certificate has been obtained; (ii) construction work planning permit and permit for construction work have been obtained; (iii) the commodity property project with the seven or less floors has been capped; the commodity property project with more than seven floors has completed two-thirds of the above-ground floors; (iv) the completion and delivery dates have been ascertained; (v) The pre-sale commodity property project and its land use right have not been encumbered by other rights, seized or detained by the judicial or administrative body; and (vi) the balance of the project capital account is not less than 10% of the project capital.

According to the Regulations of Shanxi Province on the Administration of Transaction of the Urban Real Estate (山西省城市房地產交易管理條例) promulgated by the Standing Committee of People's Congress of Shanxi Province on December 2, 2002 and effective on January 1, 2003, the following conditions shall be fulfilled for the pre-sale of commodity properties in Shanxi Province: (i) the land premium has been paid in full for the land use right and a land use right certificate has been issued; (ii) a Permit for Construction Work Planning and a Permit for Construction of Work have been obtained; and (iii) more than one-third of the main building works were completed and the completion and delivery dates have been ascertained.

According to the Regulations of Guangdong Province on the Administration of Advance Sales of Commercial Housing (《廣東省商品房預售管理條例》) enacted by the Standing Committee of the Ninth People's Congress of Guangdong Province on July 29, 1998 and revised for the third time on September 25, 2014, the following conditions shall be fulfilled for the pre-sale of commodity properties in Guangdong: (i) the property developer has obtained the qualification certificate of real estate development and business license; (ii) the land premium has been paid in full for the land use right according to the relevant provisions of the land administrations, and the land use right has been obtained; (iii) the license for construction project planning and construction project execution have been obtained, and the procedures for supervising the quality and safety of the construction project have been completed; (iv) the construction schedule and the time for completion and delivery have been determined; (v) having completed the foundation and the structure project of the commodity property projects of three floors or less; having completed the foundation and the structure project of the first floor of the commodity property projects of four floors or more, if there are basement projects, having completed the foundation and structure projects, if there is no basement, having completed the foundation and the structure projects of four floors; (vi) having opened special accounts for the payment of pre-sales of commodity properties at the commercial bank where the project is located; and (vii) there are no other rights set upon the projects of pre-sales of commodity properties and upon the land-use right thereof.

ii. Management of pre-completion sale proceeds of commodity properties

According to the Pre-completion Sale Measures, the proceeds obtained by a real estate developer from the advance sale of commodity housing must be used for the construction of the relevant projects. The specific measures for the supervision on proceeds from the advance sale of commodity properties shall be formulated by the property administration departments.

iii. Conditions of the sale of post-completion commodity properties

Under the Regulatory Measures on the Sale of Commodity Properties (《商品房銷售管理辦法》), commodity properties may be put to post-completion sale only when the following preconditions have been satisfied: (A) the property development enterprise offering to sell the post-completion properties shall have an enterprise legal person business license and a qualification certificate of a real estate developer; (B) the enterprise has obtained a land use right certificate or other approval documents of land use; (C) the enterprise has the permit for construction project planning and the permit for construction; (D) the commodity properties have been completed and been inspected and accepted as qualified; (E) the relocation of the original residents has been well settled; (F) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc., have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule for construction and delivery date thereof have been specified; and (G) the property management plan has been completed.

Before the post-completion sale of a commodity building, a real estate developer must submit the Real Estate Development Project Manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the property development authority, for its records.

iv. Regulations on sale of commodity properties

According to the Development Regulations and the Pre-completion Sale Measures, for the pre-completion sale of a commodity property, the developer shall sign a contract on the pre-sale of the commodity property with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and recording of the contract for pre-completion sale of commodity property to the relevant administrative departments governing the property and the land administration department of the city or county governments. The property administration departments are supposed to take the initiative to apply network information technology to gradually implement web-based registration of pre-sale contracts.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Department on Doing a Good Job of Stabilizing House Prices (《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》) on May 9, 2005, there are several regulations concerning sales of commodity properties:

- the buyer of a commodity building is prohibited from conducting any transfer of the pre-sale of the commodity building that he has bought but is still under construction. Before completion and delivery of an advance sale commodity building to the advance buyer, and before the advance buyer obtains the individual property ownership certificate, the property administration department shall not handle any transfer of the commodity building. If there are any discrepancies in the name of the applicant for property ownership and the name of the advance buyer in the advance sales contract, the property ownership registration administration shall not record the application of real estate ownership; and
- a real-name system for house purchases should be applied; and an immediate archival filing network system should be carried out for the pre-sale contracts for commodity properties.

In April 2010, MOHURD 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 (《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: (i) a real estate developer should disclose, within 10 days of the receipt of a pre-sale permit, all the properties approved for pre-sale and the price of each unit, and should sell the properties at prices which are the same as the prices submitted in the pre-sale proposal; and (ii) the plan for pre-completion sale of commodity properties submitted by the real estate developer with provisional qualification certificate when applying for the Permit for Pre-completion Sale of Commodity Properties should identify a body bearing all responsibilities relating to the qualification of the commodity property after the bankruptcy, and such body should submit a letter of guarantee.

(c) Mortgages of real estate

Under the Civil Code of the People's Republic of China(《中華人民共和國民法典》), which was issued on May 28, 2020 and became effective on January 1, 2021, and the Measures on the Administration of Mortgage of Buildings in Urban Areas (《城市房地產抵押管理辦法》) enacted by the Ministry of Construction in May 1997 and revised on August 15, 2001, mortgage refers to the act of a debtor, or a third party, who, without transferring the occupancy of the properties, charge those properties as security for the creditor's rights. When the debtor fails to pay his debt, the creditor has a right to obtain compensation, in accordance with the stipulations of this law, by converting the properties into money or seek preferential payments from the proceeds of the public auction or listing-for-sale of the concerned properties. The mortgage shall not exceed the value of the properties mortgaged. After being mortgaged, the balance of value of the properties that exceeded the creditor's rights can be mortgaged for a second time, but the sum of the mortgage shall not exceed the value of the balance. When a mortgage is created on the ownership of a building on state-owned land legally obtained, a mortgage shall be simultaneously created on the land use right of the land on which the building is erected. When the land use right of state-owned land acquired through means of assignment is mortgaged, the buildings on the land shall also be mortgaged at the same time. The land use right of town and village enterprises cannot be mortgaged individually. When the buildings of the town and village enterprises are mortgaged, the land use right occupied by the buildings shall also be mortgaged at the same time. The mortgagor and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a property mortgage contract has been signed, the parties to the mortgage shall register the mortgage with the property administration authority at the location where the real estate is situated. A real estate mortgage right shall become effective on the date of registration of the real estate mortgage. If a mortgage is created on real estate in respect of which a property ownership certificate has been legally obtained, the registration authority shall make an entry under the "third party rights" item on the original real estate ownership certificate and then issue a Certificate of Third Party Rights to Real Estate. If a mortgage is created on the commodity building put to pre-completion sale or under construction, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after the issuance of the certificates evidencing the ownership of the property.

(d) Lease of buildings

Under the Measures for Administration of Lease of Buildings (《商品房屋租賃管理辦法》) enacted by the Ministry of Housing and Urban-Rural Development on December 1, 2010 and enforced on February 1, 2011, the parties to a lease of a building shall enter into a lease contract. When a lease contract is signed, amended or terminated, the parties shall register the details with the property administration authority under the local government of the city or county in which the building is situated. On May 17, 2016, the General Office of the State Council issued the "Opinions on Accelerating the Cultivation and Development of Leasing Market" (國務院辦公廳關於加快培育和發展住房租賃市場的若干意見), which encourages real estate developers to carry out house leasing businesses. The said opinions support real estate developers to utilize built residential properties or newly built residential properties to carry out leasing businesses. The opinions also encourage real estate developers to put up the residential properties for rent and to cooperate with residential property leasing enterprises to

develop rental properties. On July 18, 2017, MOHURD, NDRC and other government departments jointly released the “Circular on Accelerating the Development of the Housing Leasing Market in Large and Medium-sized Cities with a Large Inflow Population” (關於在人口淨流入的大中城市加快發展住房租賃市場的通知, hereinafter referred to as the Circular). According to the Circular, the government will take multiple measures to speed up the development of the rental market and increase supply of rental housing, including but not limited to, encouraging the local governments to increase land supply for the development of property for rental- and increasing the proportion of rental housing to the commercial residential building projects.

F. Real Estate Financing

PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (《關於進一步加強房地產信貸業務管理的通知》) on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of property development and individual home mortgage as follows:

- (a) the real estate loan by commercial banks to real estate enterprises shall be granted only under the title of “property development loan” and it is strictly forbidden to extend such loans as current capital loan for a property development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the land use right certificates, construction land planning permit, construction works planning permit and work commencement permit;
- (b) commercial banks shall not grant loans to real estate developers to pay off land premiums;
- (c) commercial banks shall not advance current capital loans to real estate developers; commercial banks shall not advance loans to real estate developers of which capital is less than 30% of the total investment of the project; and
- (d) commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down-payment remains at 20%. In respect of his loan application for the additional purchase of residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by CBRC on August 30, 2004, any real estate developer applying for property development loans shall have at least 35% of the capital funds required for the development.

According to the Notice of PBOC on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit, (《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》) enacted by PBOC on March 16, 2005, effective from March 17, 2005, the down-payment for individual homes increased from 20% to 30% in cities and areas where real estate prices grow too quickly. The commercial banks can independently determine scope of such real estate price rise according to specific situations in different cities or areas.

Notice of PBOC and CBIRC on the Establishment of a Concentration Management System for Real Estate Loans by 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 was issued on December 28, 2020 and became effective on January 1, 2021, provided that, banking financial institutions (excluding overseas branches) real estate loan balance accounted for the proportion of the institution’s RMB loan balance and personal housing loan balance accounted for the proportion of the institution’s RMB loan balance shall meet the management requirements set by the People’s Bank of China and the CBIRC, that is, shall not be higher than the requirements of the People’s Bank of China and the CBIRC to determine the upper limit of real estate loans and personal housing loans to the upper limit, development banks and policy banks with reference to the implementation.

On May 24, 2006, the General Office of the State Council passed the Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Control Structure and Stabilizing the Property Prices (《國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知》). The regulations provide the following:

- (a) the tightening of the control of advancing loan facilities. Commercial banks are not allowed to advance their loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and revolving credit facilities in any form to the real estate developers who have a large number of idle land and unsold commodity properties. Banks should not accept mortgages of commodity properties remaining unsold for three years or longer; and
- (b) from June 1, 2006, purchasers need to pay a minimum of 30% of the purchase price as down-payment, except for apartments with a floor area of 90 sq.m. or less for residential purposes, for which the existing requirement of 20% of the purchase price as down-payment remains unchanged.

On September 27, 2007, PBOC and CBRC issued the Circular on Strengthening the Credit Management for Commercial Real Property (《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 excessive credit granting. The measures adopted include:

- for a first time home buyer, increasing the minimum amount to 30% of the purchase price as down-payment where the property has a unit floor area of 90 sq.m. or more and the purchaser is buying the property for their own residence;
- for a second time home buyer, increasing (i) the minimum amount of down-payment to 40% of the purchase price and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) finances the purchase of a residential unit, any member of the family that buys another residential unit with loans from banks will be regarded as a second time home buyer;
- for a commercial real estate buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down-payment to 50% of the purchase price, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark bank lending interest rate and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on its risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down-payment to 45% of the purchase price, 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 holding excessive amounts of land and properties.

In addition, commercial banks are also prohibited from providing loans to projects that have less than 35% of capital funds (proprietary interests), or where there is failure to obtain land use right certificates, construction land planning permits, construction works planning permits and construction 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, property development loans provided by commercial banks should only be used for projects in areas where the commercial bank is located. Commercial banks may not provide loans to real estate developers to finance the payment of land use right grant fees.

On July 29, 2008, PBOC and CBRC issued the Notice on Promoting Economization of Land Use in Finance (Yin Fa 2008 No. 214) (《關於金融促進節約集約用地的通知》), under which, commercial banks are prohibited from providing loans (i) for projects that fall within the Catalog for Prohibited Land Use Project (and, if extended, any such loan must be withdrawn gradually); (ii) to real estate developers to finance the payment of land use right grant fees; (iii) to real estate developers that hold idle land for two years and prohibited commercial banks from extending other loans (including asset management business) secured by such idle land to the real estate developers.

In addition, commercial banks are required to be prudent when extending loans for restricted land use projects and when extending loans to the real estate developers where the development and construction of the land has not commenced within the prescribed time in the land grant contract or where the development and construction of the land has commenced but the area of the development and construction that has commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment.

According to the notice on Issues on Enlarging the Floating Range of the Downward Movement of Interest Rates for Individual Mortgage Loans (《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 PBOC on October 22, 2008 and effective on October 27, 2008, the PRC government lowered the minimum interest rate for individual mortgage loans to 70% of the corresponding PBOC benchmark bank lending rates. Further, the minimum down-payment ratio of residential properties was lowered to 20%.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (《關於促進房地產市場平穩健康發展的通知》), adopting a series of measures to strengthen and improve the regulation of the real estate market, stabilize market expectations and facilitate the stable and healthy development of the real estate market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of real estate, restrain speculation of real estate, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), that has already purchased a residence through mortgage financing and has applied to purchase a second or additional residences through mortgage financing, to pay a minimum down-payment of 40% of the purchase price. In April 2010, the State Council issued the circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (《關於堅決遏制部分城市房價過快上漲的通知》) which provides the following:

- 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% 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% of the purchase price and pay a mortgage rate which is not lower than 110% 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; and

- 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.

Three authorities, including MOHURD, PBOC and CBRC, jointly released the Circular on Regulating the Criteria for Identifying the Second Residential Property in Connection with Commercial Mortgage Loans (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》) on May 26, 2010, so as to regulate applicants for commercial housing loans for second houses (hereinafter referred to as the loan applicants). Under the Circular, the number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in writing. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family.

To support the demand of purchasers of residential property and to promote the sustainable development of the real estate market, the PBOC and the CBRC jointly issued the Notice on Further Improving Financial Services for Residential Property (《關於進一步做好住房金融服務工作的通知》) on September 29, 2014, which provides that for any family that wishes to use a loan to purchase a residential property, the minimum down payment will be 30% of the property price and the minimum loan interest rate will be 70% of the benchmark lending interest rate, with the specific terms of such loan to be decided by the banking financial institution that provides the loan, based on the risk profile of the borrower. Where a family that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to purchase another residential property to improve living conditions, the bank may apply mortgage loan policy for first-time purchasers of residential property. In cities that have lifted restrictions on the purchase of residential property by residents or those that have not imposed such restrictions, when a family that owns two residential properties or more and has paid off its existing mortgage loans applies for a new mortgage loan to purchase another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency and credit standing of the borrower and other factors, to decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

On February 13, 2017, the Asset Management Association of China (“AMAC”) has released and implemented the Administrative Rules for the Filing of Private Equity and Asset Management Plans by Securities and Futures Institutions No. 4 — Investment in Real Estate Developers and Projects by Private Equity and Asset Management Plans (the “AMAC Rule No.4”) (《證券期貨經營機構私募資產管理計劃備案管理規範第4號 — 私募資產管理計劃投資房地產開發企業、項目》). The AMAC Rule No. 4 specifies that AMAC will temporarily cease to accept registration of those private equity and asset management plans if such plans are to make investment into ordinary residential property projects located in hot cities (currently including Beijing, Shanghai, Guangzhou, Shenzhen, Xiamen, Hefei, Nanjing, Suzhou, Wuxi, Hangzhou, Tianjin, Fuzhou, Wuhan, Zhengzhou, Jinan and Chengdu); meanwhile, it is prohibited to use private equity products to finance real estate developers for the purpose of paying the land grant fees and providing working capital loans, and directly or indirectly provide down payment facilities to various institutions.

In March 2015, PBOC, CBRC and MOHURD jointly issued the Notice on Relevant Issues Concerning the Individual Housing Loan Policies (《關於個人住房貸款政策有關問題的通知》), which provides where a family that owns a residential property and has not paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve

living conditions, the minimum down payment shall be 40% of the property price, with the specific terms of such loan to be decided by the financial institution that provides the loan based on the risk profile of the borrower.

In February 2016, PBOC and CBRC jointly issued the Circular on Issues Concerning Adjusting the Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), which provides that in cities where restrictions on the purchase of residential property have not been implemented, the minimum down payment ratio for a first-time home buyer is, in principle, 25% of the property price, which can be adjusted downward by 5% by the local authorities. For existing residential property household owners who have not fully repaid the previous loan and are obtaining further personal housing commercial loan to purchase an additional ordinary residential property for the purpose of improving living conditions, the minimum down payment ratio shall be not less than 30% which is lower than the previous requirement of not less than 40%. In cities that have implemented restrictions on the purchase of residential property, the personal housing commercial loan policies shall remain unchanged.

From September 30, 2016 to date, Beijing, Tianjin, Suzhou, Chengdu and other cities have issued new property market control policies, including restoring the restriction on purchases of residential properties and tightening credit policy. To promote the stable and healthy development of the real estate market in Beijing, among other measures, a new policy was adopted. This new policy requires the government to set a ceiling price for land granting and when bidders all bid at the ceiling price, the bidder with the lowest proposed property selling price would win the land. On October 12, 2016, the MOHURD required investigation and punishment of persons or entities that spread rumors, deliberately hype or disrupt the market to protect the rights and interests of housing buyers.

G. Insurance of a real estate project

There are no mandatory provisions in PRC law, regulations and government rules which require a real estate developer to take out insurance policies for its real estate projects.

In light of the Construction Law of the People's Republic of China (《中華人民共和國建築法》) enacted by the Standing Committee of the National People's Congress on November 1, 1997 and enforced on March 1, 1998 and most recently amended on April 23, 2019, construction enterprises must maintain accident and casualty insurance for workers engaged in dangerous operations. In the Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work (《關於加強建築意外傷害保險工作的指導意見》) enacted by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasized the importance of insurance to cover accidental injury in construction work and put forward detailed guidance.

Construction companies shall pay the insurance premium at their own costs and take out various types of insurance to cover their liabilities, such as real estate risks, third party liability risks, performance guarantee in the course of construction and all risks associated with the construction and installation work throughout the construction period. The requirements for insurance for all the aforementioned risks shall cease immediately after the completion and acceptance upon inspection of construction.

H. Major taxes applicable to real estate developers

(a) Income tax

According to the EIT Law (《中華人民共和國企業所得稅法》) enacted by the National People's Congress on March 16, 2007 effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018, a uniform income tax rate of 25% applies to foreign-invested enterprises and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises.

Under the PRC Enterprise Income Tax Law and its implementation rules, an income tax rate of 10% will normally be applicable to dividends payable to non-PRC enterprise investors which are derived from sources within the PRC, unless there exists a tax treaty between the PRC and the relevant jurisdictions in which such non-PRC enterprise shareholders reside, whereupon the relevant tax may be reduced or exempted.

(b) Business Tax and Value-added Tax

In March 2015, the Ministry of Finance and State Administration of Taxation jointly issued the Notice on Adjusting the Policies 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》). Where individuals sell houses that have been procured for less than two years, they shall pay the business tax in full; where individuals sell the non-ordinary houses that have been procured for more than two years (inclusive), they shall pay the business tax on the balance of their sale income minus the price for purchasing the houses; where individuals sell ordinary houses that have been procured for more than two years (inclusive), they shall be exempted from the business tax.

On November 16, 2011, the State Administration of Taxation and Ministry of Finance jointly promulgated the Circular on Printing and Distributing the Pilot Proposal for the Collection of Value-Added Tax in Lieu of Business Tax (《關於印發〈營業稅改徵增值稅試點方案〉的通知》). According to the Proposal, the general VAT calculation method in principle applies to the transportation industry, the construction industry, the post and telecommunication industry, the modern service industry, the culture and sports industry, the sale of real property and the transfer of intangible assets. The pilot program commenced on January 1, 2012, and will improve and expand according to the circumstances.

In March 2016, the Ministry of Finance and State Administration of Taxation jointly 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》) and further amended such circular in July 2017, December 2017 and March 2019 (effective from April 2019) respective. Upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax has been promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry are included in the scope of the pilot program and are subject to value-added tax instead of business tax.

(c) Land appreciation tax

According to the requirements of the Provisional Regulations of The People's Republic of China on LAT (the "Land Appreciation Provisional Regulations") (《中華人民共和國土地增值稅暫行條例》), which became effective on January 1, 1994, and was amended on January 8, 2011, and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on LAT (the "Land Appreciation Detailed Implementation Rules") (《中華人民共和國土地增值稅暫行條例實施細則》), which was enacted and effective on January 27, 1995, any appreciation gained from taxpayer's transfer of real estate shall be subject to LAT. LAT is set at four different rates: 30% on appreciation not exceeding 50% of the sum of deductible items; 40% on appreciation exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on appreciation exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on appreciation exceeding 200% of the sum of deductible items. The deductible items include the following:

- amount paid for obtaining the land use right;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of real estate; and

- other deductible items as specified by the MOF.

According to the requirements of the Land Appreciation Provisional Regulations, the Land Appreciation Detailed Implementation Rules and the Notice issued by the MOF in respect of the Levy and Exemption of LAT for Development and Transfer Contracts Signed before January 1, 1994 (《關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知》) which was announced by MOF and SAT on January 27, 1995, and terminated by a decision of the MOF on February 2, 2015, LAT shall be exempted under any one of the following circumstances:

- for ordinary standard residential properties (i.e. residential properties built in accordance with the local standard for general civilian residential properties and not deluxe apartments, villas, resorts etc. where the appreciation amount does not exceed 20% of the sum of deductible items;
- where property taken over and repossessed according to laws due to the construction requirements of the State;
- due to individuals who relocate as a result of redeployment of work or improvement of living standards from originally self-used residential property, but only where they have been living for five years or more, and after obtaining tax authorities' approval;
- for real estate transfer contracts which were signed before January 1, 1994, whenever the properties are transferred, LAT shall be exempted; and
- if the property development contracts (房地產開發合同) were signed before January 1, 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, LAT shall be exempted if the properties are transferred for the first time within five years after January 1, 1994. The date of signing the contract shall be the date of signing the sale and purchase agreement. For particular real estate projects approved by the government for the development of the entire piece of land and long-term development, if the properties are transferred for the first time after the five-year tax-free period, after auditing by the local financial and tax authorities, and approval by MOF and SAT, the tax-free period would be appropriately prolonged.

After the issuance of the Land Appreciation Provisional Regulations and the Land Appreciation Detailed Implementation Rules, due to the relatively long period required for property development and transfer, many districts, while they were implementing the regulations and rules, did not mandatorily require the real estate enterprises to declare and pay LAT. Therefore, in order to assist the local tax authorities in the collection of LAT, MOF, SAT, the Ministry of Construction and MLR had separately and jointly issued several notices to restate the following: after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate located, and pay LAT in accordance with the amount as calculated by the tax authority and within the specified time limit. For those who fail to acquire proof of tax payment or tax exemption from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the property title certificate.

SAT also issued the Notice issued by SAT in respect of the Serious Handling of Administration Work in relation to the Collection of LAT (《關於認真做好土地增值稅徵收管理工作的通知》) on July 10, 2002 to request local tax authorities to modify the management system of LAT collection and operation procedures, to build up a proper tax return system for LAT, to improve the methods of pre-levying for the pre-sale of real estate. That notice also pointed out that the preferential policy of LAT exemption for first time transfer of properties under property development contracts signed before January 1, 1994 or project proposal that has been approved and for which capital was injected for development is expired, and that such tax shall be levied again.

SAT issued the Notice of SAT in respect of the Strengthening of Administration Work in relation to the Collection of LAT (《關於加強土地增值稅管理工作的通知》) on August 2, 2004 which was further amended on June 15, 2018 and the Notice of SAT in respect of the Further Strengthening of Administration Work in relation to the Collection of LAT and Land Use Tax in Cities and Towns (《關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》) on August 5, 2004. The aforesaid notices point out that the administration work in relation to the collection of LAT should be further strengthened. The preferential policy of LAT exemption for the first time transfer of properties under property development contracts signed before January 1, 1994 expire and such tax shall be levied again. Where such taxes were still not levied, the situation should be immediately rectified. Also, the notice required that the system of tax declaration and tax sources registration in relation to LAT should be further improved and perfected.

On March 2, 2006, MOF and SAT issued the Notice of Certain Issues Regarding LAT (《關於土地增值稅若干問題的通知》). The notice clarifies the relevant issues regarding LAT as follows:

(a) Tax Collection and Exemption in the Sale of Ordinary Standard Residential Properties

The notice sets out the recognized standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties or commercial properties, the value of land appreciation shall be assessed individually. No retroactive adjustment will be made in respect of ordinary standard residential properties for which application for tax exemption has been filed before the notice is issued and for which LAT exemption has been granted by the tax authority on the basis of the standards of ordinary residential properties originally set down by the People's government of the province, autonomous region or municipality directly under the central government.

(b) Advance Collection and Settlement of LAT

- All regions shall further improve the measures for the advance collection of LAT, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the real estate industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.
- If any tax pre-payment is not paid within the advance collection period, overdue fines will apply as at the day following the expiration of the prescribed advance collection period.
- As to any real estate project that has been completed and gone through the acceptance procedure, where the floor area of the real estate as transferred makes up 85% or more in the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of LAT on the transferred real estate according to the matching principles regarding the proportion between the income generated from the transfer of real estate and the deductible items. The specific method of settlement shall be prescribed by the local tax authority.

On December 28, 2006, SAT issued the Notice on the Administration of the Settlement of LAT of Property Development Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》) which came into effect on February 1, 2007 and was amended on June 15, 2018. The notice sets out further provisions concerning the settlement of LAT by real estate developers by clarifying issues on responsibility for the settlement of LAT, requirements, materials to be submitted, auditing and verification, recognition of revenue of indirect sale and self-use properties, deductible items and the handling of transfer after tax is imposed and settled, etc. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

Pursuant to the notice, a real estate developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (i) the property development project has been completed and fully sold; (ii) the real estate developer transfers the whole incomplete development project; or (iii) the land use right with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if either of the following criteria is met: (a) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented has not exceeded 85%, but the remaining salable GFA has been leased out or used by the developer; (b) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (c) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (d) other conditions stipulated by the tax authorities.

The notice also indicates that if a real estate developer satisfies any of the following circumstances, the tax authorities will levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book as required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are disorganized or illegible, or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period without being remedied within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

To further strengthen LAT collection, in May 2009, SAT released the Rules on the Administration of the Settlement of LAT (《土地增值稅清算管理規程》), which became effective on June 1, 2009. The rules reiterated the circumstances under which the LAT must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of LAT and the circumstances under which the tax authorities shall levy and collect LAT as prescribed by the Notice. The rules further stipulate detailed procedures for the examination and verification of settlement of LAT to be carried out by relevant tax authorities.

On May 19, 2010, SAT issued the Circular on Issues Concerning Settlement of LAT (《關於土地增值稅清算有關問題的通知》) which clarifies the revenue recognition in the settlement of land value-added tax and other relevant issues. According to the Circular, in the settlement of land value-added tax, if the sales invoices of commodity houses are issued in full, the revenue shall be recognized based on the amount indicated in the invoices; if the sales invoices of commodity houses are not issued or are issued in part, the revenue shall be recognized based on the purchase price indicated in the sales contract as well as other income. If the area of a commodity house specified in a sales contract is inconsistent with the result obtained by the relevant authorities after on-site survey and the purchase price is made up or returned before the settlement of land value-added tax, adjustments shall be made in the calculation of land value-added tax. The Circular provides that the deed tax paid by a property development enterprise for land use right shall be treated as the “relevant fees paid in accordance with the uniform regulations of the state” and be deducted from the “amount paid for land use right.”

On May 25, 2010, SAT issued the Notice on Strengthening of Administration work with respect to the Collection of LAT (《關於加強土地增值稅徵管工作的通知》) which specifies the advance collection rate of LAT in different regions in China. According to this circular, except for low-income housing, the advance collection rate of LAT should not be less than 2% in provinces of China's eastern region, 1.5% in provinces of China's central and northeastern regions, and 1% in provinces of China's western region. The local government should apply the proper advance collection rate on the basis of the specific property category (regions should be divided in accordance with the relevant documents of the State Council).

(d) Deed tax

Pursuant to the Interim Regulations of the People's Republic of China on Deed Tax (《中華人民共和國契稅暫行條例》) enacted by the State Council on July 7, 1997, and enforced on October 1, 1997, and further amended on March 2, 2019, the transferee, whether an entity or individual, of the title to land or building in the PRC shall pay deed tax. The rate of deed tax is 3% to 5%. Provincial, regional or municipal governments directly under the central government may, within the aforesaid range, determine and report their effective tax rates to MOF and SAT for their record.

Pursuant to the Implementation Measures on Interim Regulations of the People's Republic of China on Deed Tax in Fujian Province (《福建省貫徹〈中華人民共和國契稅暫行條例〉實施辦法》) promulgated by the People's Government of Fujian on November 8, 1997, effective on October 1, 1997 and amended on November 7, 2003, the rate of deed tax in Fujian is 3%.

Pursuant to the Notice on Adjustment of Preferential Treatment Policies in respect of Deed Tax and Business Tax on Real Estate Transactions (《關於調整房地產交易環節契稅、營業稅優惠政策的通知》) promulgated by MOF, SAT and MOHURD on February 17, 2016, and implemented on February 22, 2016, the rate of deed tax payable for real estate transactions was adjusted downward as follows:

- for an individual purchasing the only residential property for his/her household, the rate of deed tax was adjusted downward to 1% for a property of 90 sq.m. or less and to 1.5% for a property of more than 90 sq.m.; and
- for an individual purchasing the second residential property for his/her household to improve the living conditions, the rate of deed tax was reduced to 1% for a property of 90 sq.m. or less and to 2% for a property of more than 90 sq.m.

If a taxpayer applies for tax preferential treatments, the competent real estate authority at the location of the property will issue written search results on the housing status of the taxpayer's household pursuant to his/her application or authorization and promptly provide the search results and the relevant housing status information to the tax authority. Detailed operation measures will be collectively formulated by the competent financial, tax and real estate departments of various provinces, autonomous regions and municipalities.

Beijing, Shanghai, Guangzhou and Shenzhen are temporarily not subject to the above deed tax preferential treatment policies.

(e) Urban land use tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988, and revised on December 31, 2006, January 8, 2011, December 7, 2013, and March 2, 2019, the land use tax in respect of urban land is levied according to the area of the relevant land. The annual tax as January 1, 2007 shall be between RMB0.6 and RMB30.0 per sq.m. of urban land, calculated according to the tax rate determined by local tax authorities.

(f) Buildings tax

Under the Interim Regulations of the People's Republic of China on Buildings Tax (《中華人民共和國房產稅暫行條例》) enacted by the State Council on September 15, 1986, and amended on January 8, 2011, buildings tax is 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental.

(g) Farmland Occupation Tax

Pursuant to the Law of the People's Republic of China on Farmland Occupation Tax (《中華人民共和國耕地佔用法》) (the "Farmland Occupation Tax Law") promulgated on December 29, 2018 and effective on September 1, 2019, the farmland occupation tax shall be calculated on the basis of the area of the farmland actually occupied by a taxpayer and be paid in a lump sum under the applicable tax rate as prescribed. The tax payable shall be the area of farmland (square meters) actually occupied by the taxpayer multiplied by the applicable tax rate.

(h) Stamp duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》) enacted by the State Council on August 6, 1988 and amended on January 8, 2011, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty is 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use right certificates, stamp duty is levied at RMB5 per item.

(i) Municipal maintenance tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on February 8, 1985, and further revised on January 8, 2011, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax is required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. According to the circular issued by the State Council on October 18, 2010 regarding the Unification of Municipal Maintenance Tax and Education Surcharge towards Foreign and Domestic Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), the Interim Regulations of the PRC on Municipal Maintenance Tax also applies to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

(j) Education surcharge

Under the Interim Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) enacted by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005, and January 8, 2011, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax is required to pay an education surcharge, unless such taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (《國務院關於籌措農村學校辦學經費的通知》). Under the Supplementary Notice Concerning Imposition of Education Surcharge (《國務院關於教育費附加徵收問題的補充通知》) issued by the State Council on October 12, 1994, the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises and the Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign Invested Freightage Enterprises, whether foreign-invested enterprises are subject to the education surcharge will be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment before December 1, 2010. According to the circular issued by the State Council on October 18, 2010 regarding the Unification of Municipal Maintenance Tax and Education Surcharge towards Foreign and Domestic Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), the Interim Provisions on Imposition of Education Surcharge also applies to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

I. Measures on adjusting the structure of housing supply and stabilizing housing price

The General Office of the State Council enacted the Circular on Stabilizing Housing Price (《關於切實穩定住房價格的通知》) on March 26, 2005, requires measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the real estate market.

On May 9, 2005, the General Office of the State Council forwarded the Opinion of the Ministry of Construction and other Departments on Doing a Good Job of Stabilizing House Prices, the opinion provides:

(a) Intensifying the planning and control and improving the supply structure of houses

Where the housing price is growing excessively and where the supply of ordinary commodity houses in the medium or low price range, and economical houses are insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses in the medium or low price range and economical houses. The construction of low-density, upmarket houses shall be strictly controlled. With respect to construction projects of medium- or low-price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design, such as the height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for property development projects. Housing projects that have not commenced within two years must be examined again, and those that turn out to not be in compliance with the planning permits will be revoked.

(b) Intensifying the control over the supply of land and rigorously enforcing the administration of land

Where the price of land for residential use and residential properties grows too rapidly, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses in the medium- or low-price range and economical house should be increased. Land supply for villa construction continues to be suspended, and land supply for high-end housing real estate construction is strictly restricted.

(c) Adjusting the policies of business tax on residential property transfer and strictly regulating the collection and administration of tax

From June 1, 2005, the business tax on transfer of a residential property by an individual within two years of the purchase will be levied on the basis of the full amount of the sale proceeds. Transfer of an ordinary residential property by an individual who sells two years or more after the purchase is exempted for business tax. For transfer of a house other than ordinary residential property by an individual two years or more after the purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

(d) Rectifying and regulating for an orderly market

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought that is still under construction. A real name system for property purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

On May 24, 2006, the State Council forwarded the Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices (《關於調整住房供應結構穩定住房價格的意見》) (the "Opinion") of the Ministry of Construction and other relevant government authorities. The opinion provides the following:

(1) *Adjusting the Housing Supply Structure*

- Developers must focus on providing small- to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents.
- As at June 1, 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the central government, cities listed on state plans (計劃單列市) or provincial capital cities (省會城市) have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio.

(2) *Further adjustments by tax, loan and land policies*

- From June 1, 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, business tax will be levied on the balance between the selling price and the purchase price.
- Commercial banks are not allowed to advance loan facilities to real estate developers who do not have the required 35% minimum of the total capital for the construction projects. Commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a lot of idle land and unsold commodity apartments. Banks shall not accept mortgages of commodity apartments remaining unsold for three years or more.
- At least 70% of the total land supply for residential property development must be used for developing small-to-medium-sized low-cost public housing. Based on the restrictions of residential property size ratio and residential real estate price, land supply will be granted by way of public auction to the real estate developer who offers the highest bid. Land supply for villa construction will continue to be suspended, and land supply for low-density and large-area property construction will be restricted.
- The relevant authorities will levy a higher surcharge against those real estate developers who have not commenced construction work for longer than one year from the commencement date stipulated in the construction contract and will order them to set a date for commencing the construction work and a date of completion. The relevant authorities will confiscate, without compensation, the land from those real estate developers who have not commenced construction work beyond two years from the commencement date stipulated in construction contract without proper reasons. The relevant authorities will dispose of idle land of those real estate developers who have suspended construction work for one year without approval, who have invested less than one-quarter of the total proposed investment and who have developed less than one-third of the total proposed construction area.

(3) *Reasonably Monitoring the Scope and Progress of Demolition of Urban Housing*

- The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halt “excessive real estate growth triggered by passive means” (被動性住房需求的過快增長).

(4) *Further Rectifying and Regulating the Order of the Real Estate Market*

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted planning permits but have not been commenced. The relevant authorities will ensure that no planning permit (規劃許可證), construction permit (施工許可證) or permit for pre-sale of commodity properties (商品房預售許可證) are issued to those construction projects which do not satisfy the regulatory requirements, in particular, the prescribed ratio requirement. If the real estate developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of commodity properties (住房) and to confiscate the land in accordance with the law.
- The property administration authority and the administration of industry and commerce will investigate illegal dealings, such as contract fraud cases in accordance with the law. The illegal conduct of pre-completion sale of commodity apartments without satisfying all the conditions is prohibited and an administrative penalty will be imposed on offenders in accordance with the law. For real estate developers who deliberately manipulate the supply of commodity housing, the relevant authorities will impose substantial administrative penalties, including revoking the business licenses of serious offenders and pursuing personal liability for individuals concerned.

(5) *Gradually relieving the housing demands for low-income families*

- To expedite the establishment of low-cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

(6) *Improving information disclosure system and system for collecting real estate statistics*

On May 30, 2006, MLR published an urgent notice to tighten land administration (《關於當前進一步從嚴土地管理的緊急通知》), which has been invalidated on December 18, 2010, by MLR. In this notice, MLR stressed the local governments should strictly restrict the supply of land for low-density and large-size housing and suspend the supply of land for new villa projects.

On July 6, 2006, the Ministry of Construction promulgated a supplemental Opinion on Carrying Out the Residential Property Size Ratio in Newly-Built Residential Buildings (Jianzhufang 2006 No. 165) (《關於落實新建住房結構比例要求的若干意見》) (the “Supplemental Opinion”). The Supplemental Opinion provides the following:

- as at June 1, 2006, of the newly approved and newly commenced construction projects in different cities, including town and counties, at least 70% of the total construction area must be used for building small apartments with a unit floor area of 90 sq.m. or below (including economically affordable apartments). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality; and
- The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design, and must ensure that the property size ratio is adhered to. If a real estate developer has not followed the ratio

requirement without providing proper reasons, the town planning authorities will not issue a planning permit. If the real estate developer has not followed the requirements of the planning permit, the relevant authority reviewing the planning documents will not issue a certification, the construction authority will not issue a construction permit, and the property authority will not issue a permit for pre-completion sale of the commodity apartments.

In the case of construction projects that were granted approval before June 1, 2006, but that were not granted a construction work permit by that date, the relevant local governments in different localities should ascertain the details of the projects and ensure that the prescribed residential property size ratio requirement is complied with.

On September 27, 2007, PBOC and CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down-payment a property purchase must make before seeking mortgage financing. See “— Legal supervision relating to real estate sector in the PRC — F. Real estate financing.”

(e) Implementing restrictions on the payment terms for land use right

On September 28, 2007, MLR issued a regulation, which reiterated that real estate developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use right certificate or commence development on the land, effective November 1, 2007. In November 2009, MOF, MLR, 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》). The notice raises the minimum down-payment for land premium to 50% 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 March 2010, MLR published the Notice on Increasing the Supply of Land for Real Estate Development and the Tightening of Regulation (《關於加強房地產用地供應和監管有關問題的通知》), which requires: (i) that the minimum land premium payable shall not be less than 70% of the benchmark price for land of the same grade as that of the lot to be granted; (ii) that the competitive bid bond shall not be less than 20% of the minimum land premium; and (iii) that 50% 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.

Pursuant to the notice on Enlarging the Floating Range of the Downward Movement of Interest Rates for Individual Mortgage Loans, the PRC government lowered the minimum interest rate for individual mortgage loans to 70% of the corresponding PBOC benchmark bank lending rates. Further, the minimum down-payment ratio of residential properties was lowered to 20%. On October 22, 2008, MOF and SAT issued the Notice on the Adjustments to Taxation on Real Property Transactions (《關於調整房地產交易環節稅收政策的通知》) (which has been revised by Notice of the Ministry of Finance, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development on Adjusting the Preferential Policies on Deed Tax and Individual Income Tax during Real Estate Transactions (財政部、國家稅務總局、住房和城鄉建設部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) implemented from October 1, 2010), pursuant to which, from November 1, 2008, individuals who are to sell or purchase residential properties are temporarily exempted from stamp duty and individuals who are to sell residential properties are temporarily exempted from land value added tax.

On December 20, 2008, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (《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 ordinary residential units and support real estate developers in changing market conditions. Pursuant to the opinion, in order to encourage the consumption of ordinary residential units, from January 1, 2009 to December 31, 2009, (i) business tax will be imposed on the full amount of the sale price, upon the transfer of a non-ordinary residential unit by an individual within two years from the purchase date; (ii) for the transfer of a non-ordinary residential unit which has been held by the purchaser for more than two years from the purchase date and an ordinary residential unit which has been held by the purchaser for two years or less from the purchase date, the business tax is to be levied on the difference between the sale price and the purchase price; (iii) and in the case of an ordinary residential unit, business tax is fully exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residential unit that is smaller than the average size for their locality may buy a second ordinary residential unit under favorable 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 medium-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 MOF and SAT 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》) to curtail speculation in the real estate market in response to the real estate price rises across the country. Pursuant to the notice, effective from March 31, 2015 business tax is imposed on the full amount of the sale income upon the transfer of residence by an individual within two years from purchase date. For the transfer of non-ordinary residence which is more than two years (including two years) from 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 more than two years (including five years) from the purchase date.

In January 2010, the General Office of the State Council issued the Circular on Facilitating the Stable and Healthy Development of Property Market (《關於促進房地產市場平穩健康發展的通知》), adopted a series of measures to strengthen and improve the regulation of the real estate market, stabilize market expectation and facilitate the stable and healthy development of the real estate market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of real estate, curb 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), which has already purchased a residence through mortgage financing and has applied to purchase a second or more residences through mortgage financing, to pay a minimum down-payment of 40% of the purchase price.

On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》) which stipulated that down-payment for the first property that is larger than 90 sq.m. shall not be less than 30% of the purchase price; down-payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not less than 1.1 times the benchmark lending rate published by the PBOC. In addition, the down-payment and interest rate shall significantly increase for the third or further properties bought with mortgage loans.

Three authorities, including MOHURD, PBOC and CBRC, jointly released the Circular on Regulating the Criteria for Identifying the Second Residential Property in Connection with Commercial Mortgage Loans (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》) on May 26, 2010, so as to regulate applicants for commercial housing loans for second properties (hereinafter referred to as the loan applicants). Under the Circular, number of houses owned by a family in the commercial housing loans for individuals shall be calculated according to number of houses which are actually owned by members (including the loan applicant and his/

her spouse and under-age children) of the family who plans to purchase a house. The Circular also stipulated that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in writing. The loan applicant shall provide the credit guarantee in written to prove the actual number of houses owned by his/her family. In addition, the State Administration of Taxation and the Ministry of Finance jointly released the Circular on Adjusting Policies of Business Tax on Individual Transfer of Houses (《關於調整個人住房轉讓營業稅政策的通知》) on March 31, 2015, which provides that: (i) where individuals sell houses which have been procured for less than two years, they shall pay the business tax in full amount; where individuals sell the non-ordinary houses which have been procured for more than two years (inclusive), they shall pay the business tax on the balance of their sale incomes after deduction of the price for purchasing the houses; where individuals sell ordinary houses which have been procured for more than two years (inclusive), they shall be exempted from the business tax; (ii) the aforementioned criteria of ordinary houses and non-ordinary houses, the detailed procedures of tax exemption, the provisions on the time of purchasing the houses, the invoice issuance, the tax gap deduction credence, the behavior of obtaining the houses via non-purchase form, and other relevant provisions on taxation administration shall comply with the relevant provisions of the Circular of the General Office of the State Council on Distributing the Opinions of the Ministry of Construction and Other Departments on Stabilizing Housing Price (Guo Ban Fa [2005] No. 26), the Circular of the State Administration, the Ministry of Finance and the Ministry of Construction on Strengthening the Real Estate Taxation Administration (Guo Shui Fa [2005] No. 89) and the Circular of the State Administration of Taxation on Several Detailed Issues Concerning the Implementation of Real Estate Taxation Policies (Guo Shui Fa [2005] No. 172).

The State Council promulgated the Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), which was effective from March 1, 2015 and most recently amended on March 24, 2019, and the Implementation Rules of the Interim Regulations on Real Estate Registration (《不動產登記暫行條例實施細則》) effective from January 1, 2016 and amended on July 24, 2019, which provides for the following, among others: (i) the competent department of land and resources under the State Council shall be responsible for guiding and supervising the real estate registration of the State; the local government at or above the county level shall designate a department as the real estate registration authority within its administrative region which shall be subject to the guidance and supervision by the competent real estate registration authority at the higher level; (ii) the real estate authority shall establish a uniform real estate registration book to record the items including, without limitation, the natural condition and ownership conditions of the real estate, and restriction of rights; (iii) the competent department of land and resources under the State Council shall, in coordination with other related departments, establish a uniform management platform for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform management platform to ensure the real-time sharing of registration information at the national, provincial, municipal and county levels; and (iv) any right holder or interested party may inquire about or copy the real estate registration materials and the registration authority shall not refuse to provide such information. Units and individuals inquiring about the real estate registration information shall not use such registration information for any other purposes and no such information may be disclosed to the public or others without the consent of the right holder.

Legal supervision relating to the property management sector in the PRC

A. Foreign-invested real estate management enterprises

According to the Guidance Catalog, property management falls within the category of permitted foreign-invested industries. According to the Guidance Catalog and the relevant requirements set out under the laws and the administrative regulations on foreign-invested enterprises, a foreign-invested real estate management enterprise can be set up in the form of a Sino-foreign equity joint venture, a Sino-foreign cooperative joint venture or a wholly foreign owned enterprise. Before the administration of Industry and Commerce registers a foreign-invested enterprise as a foreign-invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign-invested enterprise approval certificate.”

B. Qualifications of a real estate management enterprise

According to the Regulation on Real Estate Management (《物業管理條例》) enacted by the State Council on June 8, 2003 and effective on September 1, 2003, as amended on August 26, 2007, effective on October 1, 2007, and further amended on February 6, 2016 and March 19, 2018, the state implements a qualification scheme system in monitoring the real estate management enterprises.

According to the Regulation on Real Estate Management (《物業管理條例》), the general meeting of owners in a property can appoint or dismiss the property management service provider with affirmative votes of more than half of the owners who in the aggregate hold more than 50% of the total private area of the property. Before the formal appointment of a property service enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property service enterprise.

C. Employment of a real estate service enterprise

According to the Regulation on Real Estate Management, owners may engage or dismiss a property management company with the consent of more than half of the owners who, in aggregate, hold more than 50% of the total private area of the building. If, before the formal employment of a property management by the owners or the general meeting, the construction unit is to employ a real estate management enterprise, it shall enter into a preparation stage property services contract in writing with the real estate management enterprise.

Regulation on foreign exchange registration of offshore investment by PRC residents

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Financing and Inbound Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), issued on July 4, 2014, or Circular No. 37 and its implementation rules, issued on May, 2007 ("Circular No. 106"), a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of SAFE before it contributes the domestic and overseas lawful assets and interests to a special purpose vehicle. Failure to comply with the registration procedures set forth in Circular No. 37 may result in penalties, including restrictions on the PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of the date of this offering memorandum.

Name	Age	Position
Directors		
Wong Chiu Yeung	55	Chairman of our board and chief executive officer
Chen Yuanlai	54	Vice chairman of our board and executive director
Cheng Hiu Lok	56	Vice chairman of our board and executive director
Huang Youquan	52	Executive director and executive president
Wong Lun	33	Executive director and assistant president
Ting Leung Huel Stephen . .	68	Independent non-executive director
Lu Hong Te	60	Independent non-executive director
Dai Yiyi	54	Independent non-executive director
Senior Management		
Zheng Quanlou	50	Executive president
Wang Meng	35	Executive president
Tang Xiaojuan	48	Assistant president
Ku Weihong	52	Assistant president
Peng Fei	38	Assistant president
Wang Yue	45	Assistant president
Keith Chan	48	Vice chairman and chief executive officer of Funlive rental apartments business
Li Siu Po	52	Financial controller and company secretary

BOARD OF DIRECTORS

Our board consists of eight directors, comprising five executive directors and three independent non-executive directors.

Executive Directors

Wong Chiu Yeung (黃朝陽), aged 55, is one of the founders of the Group and the chairman of the Board and chief executive officer of the Company. Mr. Wong was appointed as an executive Director on 30 November 2007, as well as the chairman of the nomination committee of the Company (the “Nomination Committee”) and a member of the remuneration committee of the Company (the “Remuneration Committee”) and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Wong is responsible for formulating business development strategies for the Group, commercial property management and financial investment management. Since his involvement in the development of the Group’s first project in 1996, Mr. Wong has been involved in all of the projects developed by the Group thereafter, and has about 25 years of experience in real estate development. Mr. Wong is the vice chairman of Hong Kong Association for the Promotion of Peaceful Reunification of China (中國和平統一促進會香港總會), guest professor of Nanchang University, vice chairman of the board of directors of Quanzhou Normal University, chairman of the board of directors of Nan’an Overseas Chinese Middle School (南安華僑中學), permanent honourable chairman of Hong Kong Federation of Fujian Association (香港福建社團聯會). Mr. Wong holds an Executive Master of Business Administration degree from Xiamen University. Mr. Wong is the father of Mr. Wong Lun, an executive Director of the Company.

Chen Yuanlai (陳元來), aged 54, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Chen was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Chen is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group’s first project in 1996, he has been involved in all of the projects developed by the Group thereafter, and has about 25 years of experience in real estate development. Mr. Chen also has extensive experience in investment management and project management through his

involvement in all of the projects developed by the Group. Mr. Chen completed the Executive Management course in Business Administration of Commercial Real Estate Development and Funding, a one-year programme offered by the School of Professional and Continuing Education of The University of Hong Kong and Fudan University, Shanghai, in May 2008. Mr. Chen has completed an Executive Master of Business Administration programme in Xiamen University.

Cheng Hiu Lok (鄭曉樂), aged 56, is one of the founders of the Group and the vice chairman of the Board of the Company. Mr. Cheng was appointed as an executive Director on 12 August 2009 and is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Cheng is responsible for formulating business development strategies for the Group. Since his involvement in the development of the Group's first project in 1996, he has been involved in all of the projects developed by the Group thereafter. Mr. Cheng has about 25 years of experience in real estate development. Mr. Cheng also has extensive experience in investment management, project management and construction management through his involvement in the projects developed by the Group. Mr. Cheng completed his college education at Fujian Normal University in 1987.

Huang Youquan (黃攸權), aged 52, is an executive Director and an executive president of the Company. Mr. Huang was appointed as an executive Director on 1 May 2011 and was appointed as the chairman of the corporate governance committee (the "Corporate Governance Committee") with effect from 1 January 2017. He is also the director of certain subsidiaries of the Company established in the PRC and Hong Kong. Mr. Huang is responsible for the financial management of the Group. Before joining the Group in 2003, Mr. Huang was the audit manager and assistant to the head of the Xiamen office of Fujian Hongshen Accounting Firm (福建弘審會計師事務所有限公司廈門分公司). Mr. Huang graduated from the Department of Mathematics of Xiamen University with a Bachelor's degree in Science in 1991. Mr. Huang is a PRC Certified Public Accountant and a member of the Fujian Institute of Certified Public Accountants. Mr. Huang has completed an Executive Master of Business Administration programme in Xiamen University.

Wong Lun (黃倫), aged 33, is an executive Director and an assistant president of the Company. Mr. Wong was appointed as an executive Director of the Company with effect from 1 March 2017. He is also the director of certain subsidiaries of the Company established in the PRC, Hong Kong and the British Virgin Islands. Mr. Wong is responsible for investor relations and commercial management of the Group. Mr. Wong joined the Group in September 2010. Mr. Wong graduated from the School of Engineering of University of Warwick with a Bachelor's degree of Science in Engineering and Business Studies in 2010. Mr. Wong holds an Executive Master of Business Administration degree from China Europe International Business School. Mr. Wong Lun is the son of Mr. Wong Chiu Yeung, an executive Director and chairman of the Board.

Independent Non-Executive Directors

Ting Leung Huel Stephen (丁良輝), aged 68, MH, FCCA, FCPA (Practising), CTA (HK), ACA, FHKIoD, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the audit committee of the Company (the "Audit Committee"), a member of the Remuneration Committee and Corporate Governance Committee. Mr. Ting is an accountant in public practice and has more than 30 years of experience in this field. Currently, he is a partner of Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting is a non-executive director of Chow Sang Sang Holdings International Limited (0116) and an independent non-executive director of six other companies listed on the Hong Kong Stock Exchange, namely Tong Ren Tang Technologies Co. Ltd. (1666), Tongda Group Holdings Limited (0698), New Silkroad Culturaltainment Limited (0472), Computer and Technologies Holdings Limited (0046), Texhong Textile Group Limited (2678) and Dongyue Group Limited (0189).

Lu Hong Te (呂鴻德), aged 60, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also a member of the Audit Committee, Nomination Committee and Corporate Governance Committee. Mr. Lu obtained a Bachelor's degree in

Industrial and Information Management from National Cheng Kung University in 1983, and a Master's degree and a Doctoral degree in Marketing from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Mr. Lu is a professor at the Department of Business Administration of Chung Yuan Christian University in Taiwan, specialising in marketing management and corporate competitive strategies. Mr. Lu is an independent non-executive director of Capxon International Electronic Company Limited (0469), China Lilang Limited (1234) and Cosmo Lady (China) Holdings Company Limited (2298), the shares of which are listed on the Hong Kong Stock Exchange. Mr. Lu is an independent director of two companies which are listed on the Taipei Exchange, namely Firich Enterprises Co., Ltd. (8076) and Lanner Electronics Inc. (6245), and an independent director of Uni-President Enterprises Corporation (1216), which is listed on the Taiwan Stock Exchange Corporation. From February 2007 to February 2019, Mr. Lu was an independent non-executive director of ANTA Sports Products Limited (2020), which is listed on the Hong Kong Stock Exchange.

Dai Yiyi (戴亦一), aged 54, was appointed as an independent non-executive Director of the Company on 6 January 2010 and is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Dai is a full-time professor of the Executive Master of Business Administration programme of the School of Management of Xiamen University and the chairman of the Board of the Jin Yuan Research Institute of Xiamen University. Mr. Dai also serves as an adjunct professor for real estate CEO programmes hosted by Tsinghua University and Peking University. Mr. Dai has been a consultant with the Fujian Real Estate Association since 2005. Mr. Dai is the vice dean of the School of Management of Xiamen University between January 2008 and December 2015. Mr. Dai is an independent non-executive director of Cosmo Lady (China) Holdings Company Limited (2298), which is listed on the Hong Kong Stock Exchange and is an independent director of Fujian Septwolves Industry Co., Ltd. (002029), which is listed on the Shenzhen Stock Exchange and is an independent director of two companies which are listed on the Shanghai Stock Exchange, namely Xiamen C&D Inc. (600153) and Xiamen ITG Corp., Ltd. (600755). From May 2013 to May 2017, Mr. Dai was an independent director of New Hua Du Supercenter Co., Ltd. (002264), a company which is listed on the Shenzhen Stock Exchange. From October 2009 to September 2018, Mr. Dai was an independent non-executive director of Mingfa Group International Company Limited (0846), which is listed on the Hong Kong Stock Exchange. Mr. Dai graduated from Xiamen University with a Bachelor's degree in Economics in 1989, and received a Doctoral degree in Economics from Xiamen University in 1999. Mr. Dai was awarded a certificate as a PRC Certified Property Valuer in 1997.

SENIOR MANAGEMENT

Zheng Quanlou (鄭全樓), aged 50, is an executive president of the Company. He is responsible for operation plan and design management of the Group. Before joining the Group in November 1998, Mr. Zheng was an on-site manager of Quanzhou Dong Hai Development Company Limited (泉州市東海開發有限公司). Mr. Zheng completed his college education in construction engineering at College of Architecture and Civil Engineering of Fujian (福建省建築高等專科學校) in 1992 and obtained his Bachelor's degree from the Department of Civil Engineering of Fujian Agriculture and Forestry University in 2009. Mr. Zheng is a PRC Registered Cost Engineer, and serves as an expert of bid evaluation of construction project in Quanzhou since 2006. Mr. Zheng has completed an Executive Master of Business Administration programme in Xiamen University.

Wang Meng (王勳), aged 35, is an executive president of the Company. He is responsible for land acquisition and marketing management of the Group. Before joining the Group in March 2015, Mr. Wang was the marketing director of Longfor Properties Co. Ltd. Mr. Wang graduated from North China University of Technology with a Bachelor's degree in Arts in 2009. Mr. Wang holds an Executive Master of Business Administration degree from Peking University.

Tang Xiaojuan (湯筱娟), aged 48, is an assistant president of the Company. She is responsible for managing daily operation of the office of president and information technology management of the Group. Prior to joining the Group in August 2002, Ms. Tang served as the office manager of Xiamen Yong Hong Ji Real Estate Development Company Limited (廈門永宏

基房地產開發有限公司)。Ms. Tang graduated from the Department of International Trade and Economics in Jiangxi University of Finance and Economics with a Bachelor's degree in Economics in 1994. Ms. Tang has completed an Executive Master of Business Administration programme in Xiamen University.

Ku Weihong (庫衛紅), aged 52, is an assistant president of the Company. She is responsible for legal affairs, administrative and human resources as well as property management of the Group. Prior to joining the Group in November 2010, Ms. Ku served as the chief legal officer of Powerlong Real Estate Holdings Limited. Ms. Ku graduated from the Department of Law of Peking University with a Bachelor's degree in Law in 1990. Ms. Ku holds the lawyer qualification certificate of the PRC and has extensive experience in legal affairs. Ms. Ku holds an Executive Master of Business Administration degree from Peking University.

Peng Fei (彭飛), aged 38, is an assistant president of the Company and is responsible for the management of the Shanghai, Jiangsu and Zhejiang regions of the Group. Prior to joining the Group in October 2007, Mr. Peng served as a marketing manager of Xiamen Strategic Property Agency Limited (廈門方略地產營銷代理有限公司). Mr. Peng graduated from Beijing Institute of Technology in Business Administration in 2016. Mr. Peng has completed an Executive Master of Business Administration programme in Xiamen University.

Wang Yue (王躍), aged 45, was appointed as an assistant president of the Company on July 1, 2020. He is responsible for cost management and construction management of the Group. Before joining the Group in May 2002, Mr. Wang was a project manager in China Construction Second Engineering Bureau Ltd. (中國建築第二工程局有限公司). Mr. Wang graduated from the Department of Civil Engineering of Tongji University (同濟大學) with a Bachelor's degree in Engineering in 2007. Mr. Wang has completed an Executive Master of Business Administration programme in Xiamen University.

Keith Chan (陳堅), aged 48, is the vice chairman and chief executive officer of Funlive rental apartments business ("Funlive"). He is responsible for overall strategic direction, business operations and management of Funlive. Prior to joining the Group in April 2018, Mr. Chan was a senior managing director, co-head of China and head of China Real Estate of Macquarie Capital. Mr. Chan has over 20 years of experience in corporate finance, investment banking and principal investments. Mr. Chan graduated from the University of Wisconsin-Madison with a Master degree in Business Administration (Finance and Investment) in 1997. Mr. Chan has also completed a Bachelor of Business Administration degree in Accounting from the same school.

Li Siu Po (李少波), aged 52, is the financial controller and company secretary of the Company. He is responsible for the financial reporting, equity and debt financing and company secretarial work of the Group. Before joining the Group in January 2008, Mr. Li was a manager of one of the international CPA firms. Mr. Li graduated from the Department of Accounting in the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy in 1994. Mr. Li is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Li has extensive experience in financial management and auditing.

COMPANY SECRETARY

Li Siu Po (李少波), a member of senior management of the Group, is the financial controller and company secretary of the Company. The biography of Mr. Li is set forth above.

BOARD COMMITTEES

Audit Committee

We have established an audit committee pursuant to a resolution of our directors passed on January 6, 2010. The audit committee consists of three independent non-executive directors, namely Ting Leung Huel Stephen, an independent non-executive director with the appropriate professional qualifications who serves as the chairman of the committee, Lu Hong

Te and Dai Yiyi. The primary duties of the audit committee are, among others, (i) to make recommendations to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal, (ii) to review and monitor the external auditor's independence, objectivity and effectiveness of the audit process in accordance with applicable standards, (iii) to monitor the integrity of our financial statements, interim reports, annual reports and accounts, and to review significant financial reporting judgments contained in them, and (iv) to oversee our financial reporting system, risk management and internal control procedures.

Remuneration Committee

We have established a remuneration committee pursuant to a resolution of our directors passed on January 6, 2010. The remuneration committee is chaired by Dai Yiyi, an independent non-executive director, and the other members are Wong Chiu Yeung and Ting Leung Huel Stephen. The primary duties of the remuneration committee are, among others, (i) to make recommendations to our board on the policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, (ii) to make recommendations to our board on the remuneration packages of individual executive directors and senior management, and (iii) to make recommendations to our board on the remuneration of non-executive directors.

Nomination Committee

We have established a nomination committee pursuant to a resolution of our directors passed on January 6, 2010. The nomination committee is chaired by Wong Chiu Yeung, the chairman of our board and chief executive officer, and the other members are Dai Yiyi and Lu Hong Te. The primary duties of the nomination committee are, among others, (i) to review the structure, size and composition of our board at least annually and make recommendations on any proposed changes to our board to complement our corporate strategy, (ii) to identify individuals suitably qualified to become members of our board based on, amongst others, the board diversity policy and select or make recommendations to our board on the selection of individuals nominated for directorships, (iii) to assess the independence of the independent non-executive directors, and (iv) to make recommendations to our board on matters relating to the appointment or re-appointment of directors, succession planning for directors, in particular, the chairman and chief executive officer, and the policy concerning the diversity of our board members.

Corporate Governance Committee

We have established a corporate governance committee pursuant to a resolution of our directors passed on April 1, 2012 to better perform and review corporate governance duties. Huang Youquan, our executive director, was appointed chairman of the corporate governance committee, and the other members are Ting Leung Huel Stephen and Lu Hong Te. The primary duties of the corporate governance committee are, among others, (i) to develop and review our policies and practices on corporate governance and to make recommendations to our board, (ii) to review and approve the annual corporate governance report and related disclosures in our annual and interim reports and ensure compliance with the Listing Rules or other laws, regulations, rules and codes as may be applicable to us, (iii) to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal control systems, processes and policies, and in particular, to monitor the implementation of our plans, to maintain compliance with our risk management standards, (iv) to review and monitor the training and continuous professional development of our directors and senior management, and (v) to review our compliance with our corporate governance code from time to time and the disclosure in the corporate governance report to be contained in our annual reports.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2020, the interests and short positions of the directors or chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions in ordinary shares of the Company:

Name of director	Interest in shares		Number of shares held	Approximate percentage of the Company's issued share capital
	Personal interest	Interest of controlled corporation		
Mr. Wong Chiu Yeung ("Mr. Wong")	—	2,108,000,000 ⁽¹⁾	2,108,000,000	50.40%
Mr. Chen Yuanlai ("Mr. Chen") . . .	20,000,000	210,230,000 ⁽²⁾	230,230,000	5.51%
Mr. Cheng Hiu Lok ("Mr. Cheng")	—	210,230,000 ⁽³⁾	210,230,000	5.03%

Notes:

- (1) These 2,108,000,000 Shares are registered in the name of Newup Holdings Limited ("Newup"). Mr. Wong held 100% of the entire issued share capital of Newup and was deemed to be interested in the 2,108,000,000 Shares held by Newup pursuant to the SFO.
- (2) These 210,230,000 Shares were registered in the name of Rising Trade Holdings Limited ("Rising Trade"). Mr. Chen held 100% of the entire issued share capital of Rising Trade Holdings Limited and was deemed to be interested in the 210,230,000 Shares held by Rising Trade Holdings Limited pursuant to the SFO.
- (3) These 210,230,000 Shares was registered in the name of Wealthy Gate Holdings Limited ("Wealthy Gate"). Mr. Cheng held 100% of the entire issued share capital of Wealthy Gate and was deemed to be interested in the 210,230,000 Shares held by Wealthy Gate pursuant to the SFO.

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned	Approximate percentage of the Company's issued share capital
Mr. Chen	20,000,000	0.48%
Mr. Cheng	20,000,000	0.48%
Mr. Huang Youquan	16,000,000	0.38%

Save as disclosed above, as of June 30, 2020, none of the directors or chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

2018 Share Option Scheme

We adopted a new share option scheme (“2018 Share Option Scheme”) on April 23, 2018. The purpose of the 2018 Share Option Scheme is to provide incentives and rewards to eligible participants including any directors and employees and any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of our Group. Unless otherwise cancelled or amended, the 2018 Share Option Scheme will remain in effect for a period of ten years till April 22, 2018. The exercise price for shares granted pursuant to the 2018 Share Option Scheme is the highest of:

- The closing price of our shares quoted on the HKSE’s daily quotation sheets on the date of the offer of the share options;
- The average closing price of our shares as quoted on the HKSE’s daily quotation sheets for the five trading days immediately preceding the date of the offer; and
- The nominal value of our shares.

We granted 382,000,000 share options to our employees (including director). As of June 30, 2020, we had 326,000,000 share options outstanding under the 2018 Share Option Scheme.

PRINCIPAL SHAREHOLDERS

The register of substantial shareholders required to be kept by the Company under Section 336 of Part XV of the SFO shows that as of June 30, 2020, the Company had been notified of the following substantial shareholders' interests and short positions in the shares of the Company, being interests of 5% or more, in addition to those disclosed above in respect of the directors and chief executive of the Company.

Name of shareholders	Capacity	Long/short position	Number of ordinary shares held	Percentage in the Company's issued share capital
Newup ⁽¹⁾	Beneficial owner	Long	2,108,000,000	50.40%
Rising Trade ⁽²⁾	Beneficial owner	Long	210,230,000	5.03%
Wealthy Gate ⁽³⁾	Beneficial owner	Long	210,230,000	5.03%

Notes:

- (1) *Newup was wholly-owned and controlled by Mr. Wong; accordingly, Mr. Wong was deemed to be interested in the Shares held by Newup pursuant to the SFO. Mr. Wong was the sole director of Newup.*
- (2) *Rising Trade was wholly-owned and controlled by Mr. Chen; accordingly, Mr. Chen was deemed to be interested in the Shares held by Rising Trade pursuant to the SFO. Mr. Chen was the sole director of Rising Trade.*
- (3) *Wealthy Gate was wholly-owned and controlled by Mr. Cheng; accordingly, Mr. Cheng was deemed to be interested in the Shares held by Wealthy Gate pursuant to the SFO. Mr. Cheng was the sole director of Wealthy Gate.*

Save as disclosed above, as of June 30, 2020, no person, other than a director or chief executive of the Company, whose interests are set out in the section "Directors' interests in shares, underlying shares and debentures" above, had any interest in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of, or any short position in, the issued share capital of the Company.

RELATED PARTY TRANSACTIONS

The following is a summary of significant related party balances and transactions entered into in the ordinary course of business between our members and its related parties during the periods indicated.

(a) Material transactions with related parties:

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000	US\$'000
Sales agency fees paid to an associate ⁽¹⁾	1,689	—	—	—	—	—	—
Property rental income from companies controlled by Mr. Wong and his family ⁽¹⁾	7,624	8,393	5,531	783	2,355	2,441	346
Property rental income from associates controlled by Mr. Wong and his family ⁽¹⁾	—	—	2,823	400	—	1,302	184
Property management fees received from companies controlled by Mr. Wong and his family ⁽¹⁾	4,157	3,803	1,070	151	481	588	83
Property management fees received from associates controlled by Mr. Wong and his family ⁽¹⁾	—	—	4,836	684	2,312	2,546	360
Property rental expenses paid to associates controlled by Mr. Wong and his family ⁽¹⁾	—	—	15,162	2,146	5,411	7,827	1,108
Project management income received from joint ventures ⁽¹⁾	51,921	90,546	174,313	24,672	56,727	61,326	8,680
Aircraft leasing expense paid to a company controlled by Mr. Wong ⁽²⁾	4,032	3,926	4,102	581	1,890	2,108	298
Purchase of a property from a joint venture ⁽³⁾	—	543,418	—	—	—	—	—
Interest income on amounts due from joint ventures ⁽⁴⁾	—	—	150,358	21,282	8,994	1,767	250
Consultancy service income received from joint ventures and associates ⁽⁵⁾	—	—	47,071	6,662	—	204,061	28,883
Subscription of shares in a company controlled by Mr. Wong and his family ⁽⁶⁾	—	—	200,000	28,308	200,000	—	—
Sales of a property to Mr. Wong and his family ⁽⁷⁾	—	—	38,699	5,477	—	—	—

Notes:

- (1) The transactions were based on terms mutually agreed between the Group and the related parties.
- (2) The leasing expense was charged at US\$50,000 per month.
- (3) The purchase price of the property was agreed between the Group and the joint venture by negotiation.
- (4) Interest was charged at rates ranging from 7.6% to 10.0% per annum in 2019, 8% per annum for the six months ended June 30, 2019 and 5% per annum for the six months ended June 30, 2020.
- (5) The consultancy service income was charged with reference to the consultancy service agreements entered into between the Group and related companies.
- (6) On January 25, 2019, the Group subscribed for 25% equity interests in Fun Work Group Holdings Limited at a consideration of RMB200.0 million and Fun Work Group Holdings Limited and its subsidiaries became associates of the Group.
- (7) The property was sold at prices mutually agreed by both parties.

(b) Due from/to related parties:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB'000	RMB'000	RMB'000	US\$'000	RMB'000	US\$'000
Due from related parties:						
Companies controlled by						
Mr. Wong and his family						
member	—	60,031	—	—	—	—
Joint ventures	3,324,752	3,882,612	3,923,055	555,272	3,565,233	504,626
Associates	143,875	66,850	456,110	64,558	161,463	22,854
	<u>3,468,627</u>	<u>4,009,493</u>	<u>4,379,165</u>	<u>619,830</u>	<u>3,726,696</u>	<u>527,480</u>
Due to related parties						
Directors:						
Companies controlled by						
Mr. Wong and his family						
member	552	1,334	5,052	715	2,084	295
Joint ventures	1,632,899	1,198,759	7,430,402	1,051,705	9,092,709	1,286,989
Associates	73,771	45,922	69,705	9,866	74,569	10,555
	<u>1,707,222</u>	<u>1,246,015</u>	<u>7,505,159</u>	<u>1,062,286</u>	<u>9,169,362</u>	<u>1,297,839</u>

The balances are non-trade in nature, unsecured and repayable on demand. Except for certain amounts due from related parties which are interest-bearing, all other balances are interest-free. The carrying amounts of the amounts due from/to related parties approximate to their fair values.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing real estate projects and to finance our working capital requirements, we have borrowed money from various banks and other third parties. As of June 30, 2020, our total borrowings were RMB45,507.8 million (US\$6,441.2 million) in outstanding principal amount. We set forth below a summary of the material terms and conditions of these loans and other material indebtedness.

The 2017 Notes

On March, 10 2017, we entered into an indenture (as amended and supplemented from time to time, the “2017 Indenture”) pursuant to which we issued US\$200,000,000 principal amount of the 5.875% Senior Notes due 2022. On April 20, 2017, we issued an additional US\$300,000,000 of the 5.875% Senior Notes due 2022.

Guarantee

The obligations pursuant to the 2017 Notes are guaranteed by the Subsidiary Guarantors specified in the 2017 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the 2017 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the 2017 Notes.

Collateral

In order to secure the obligations under the 2017 Notes, the Company and the Subsidiary Guarantors under the 2017 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the 2017 Notes. The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor under the 2017 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the 2017 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the 2017 Indenture.

Interest

The 2017 Notes bear an interest rate of 5.875% per annum, Interest is payable semi-annually in arrears on March 10 and September 10 of each year, as commenced on September 10, 2017.

Covenants

Subject to certain conditions and exceptions, the 2017 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;

- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The 2017 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the 2017 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the 2017 Indenture. If an event of default occurs and is continuing, the trustee under the 2017 Indenture or the holders of at least 25% of the outstanding 2017 Notes may declare the principal of the 2017 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2017 Notes is March 10, 2022. At any time on or after March 10, 2020, we may redeem the 2017 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during the twelve-month period beginning on March 10 of each of the years indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
2020	102.93750%
2021 and thereafter	101.46875%

At any time prior to March 10, 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days' nor more than 60 days' notice of any redemption.

At any time and from time to time prior to March 10, 2020, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On March 10, 2017, the trustee of the 2017 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a pari passu basis with other secured parties under the Intercreditor Agreement.

The April 2018 Notes

On April 17, 2018, we entered into an indenture (as amended and supplemented from time to time, the "April 2018 Indenture") pursuant to which we issued US\$600,000,000 7.45% senior notes due 2021.

Guarantee

The obligations pursuant to the April 2018 Notes are guaranteed by the Subsidiary Guarantors specified in the April 2018 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the April 2018 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other payable under, the April 2018 Notes.

Collateral

In order to secure the obligations under the April 2018 Notes, the Company and the Subsidiary Guarantors under the April 2018 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the April 2018 Notes. The Collateral may be released or reduced in the event of the certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor under the April 2018 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the April 2018 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the April 2018 Indenture.

Interest

The April 2018 Notes bear an interest rate of 7.45% per annum. Interest is payable semi-annually in arrears on April 17, and October 17 of each year, as commenced on October 17, 2018.

Covenants

Subject to certain conditions and exceptions, the April 2018 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the Company or any Subsidiary Guarantor;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The April 2018 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the April 2018 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the April 2018 Indenture. If an event of default occurs and is continuing, the trustee under the April 2018 Indenture or the holders of at least 25% of the outstanding April 2018 Notes may declare the principal of the April 2018 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding April 2018 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the April 2018 Notes is April 17, 2021. At any time on or after April 17, 2020, we may redeem the April 2018 Notes, in whole or in part, at a redemption price equal to 103.725% of the principal amount if redeemed during the twelve-month period beginning on April 17, 2020, plus any accrued and unpaid interest to the redemption date.

At any time prior to April 17, 2020, we may redeem the April 2018 Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the April 2018 Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. We will give not less than 30 days' nor more than 60 days' notice of any redemption.

At any time prior to April 17, 2020, we may redeem up to 35% of the aggregate principal amount of the April 2018 Notes with the Net Cash Proceeds of one or more sales of our Common Stock in an Equity Offering at a redemption price of 107.45% of the principal amount of the April 2018 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the April 2018 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On April 17, 2018, the trustee of the April 2018 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a pari passu basis with other secured parties under the Intercreditor Agreement.

The April 2019 Notes

On April 9, 2019, we entered into an indenture (as amended and supplemented from time to time, the "April 2019 Indenture") pursuant to which we issued US\$350,000,000 7.375% senior notes due 2024. On January 7, 2020, we issued an additional US\$150,000,000 of the 7.375% senior notes due 2024.

Guarantee

The obligations pursuant to the April 2019 Notes are guaranteed by the Subsidiary Guarantors specified in the April 2019 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited recourse guarantee, referred to as a JV Subsidiary Guarantee in the April 2019 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other payable under, the April 2019 Notes.

Collateral

In order to secure the obligations under the April 2019 Notes, the Company and the Subsidiary Guarantors under the April 2019 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the April 2019 Notes. The Collateral may be released or reduced in the event of the certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor under the April 2019 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the April 2019 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the April 2019 Indenture.

Interest

The April 2019 Notes bear an interest rate of 7.375% per annum. Interest is payable semi-annually in arrears on April 9 and October 9 of each year, commencing October 9, 2019.

Covenants

Subject to certain conditions and exceptions, the April 2019 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the Company or any Subsidiary Guarantor;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay;
- dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The April 2019 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the April 2019 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the April 2019 Indenture. If an event of default occurs and is continuing, the trustee under the April 2019 Indenture or the holders of at least 25% of the outstanding April 2019 Notes may declare the principal of the April 2019 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding April 2019 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the April 2019 Notes is April 9, 2024.

At any time and from time to time on or after April 9, 2022, we may redeem the April 2019 Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on April 9, of each of the year set forth below:

Period	Redemption Price
2022	103.6875%
2023 and thereafter	101%

At any time prior to April 9, 2022, the Company may at its option redeem the April 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the April 2019 Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date. At any time and from time to time prior to April 9, 2022, the Company may redeem up to 35% in aggregate principal amount of the April 2019 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 107.375% of the principal amount of the April 2019 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% in aggregate principal amount of the April 2019 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On April 9, 2019, the trustee of the April 2019 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a pari passu basis with other secured parties under the Intercreditor Agreement.

The July 2019 Notes

On July 19, 2019, we entered into an indenture (as amended and supplemented from time to time, the "July 2019 Indenture") pursuant to which we issued US\$500,000,000 7.25% senior notes due 2023.

Guarantee

The obligations pursuant to the July 2019 Notes are guaranteed by the Subsidiary Guarantors specified in the July 2019 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited recourse guarantee, referred to as a JV Subsidiary Guarantee in the July 2019 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other payable under, the July 2019 Notes.

Collateral

In order to secure the obligations under the July 2019 Notes, the Company and the Subsidiary Guarantors under the July 2019 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the July 2019 Notes. The Collateral may be released or reduced in the event of the certain asset sales and certain other circumstances.

In addition, the Company and each Subsidiary Guarantor Pledgor under the July 2019 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the July 2019 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the July 2019 Indenture.

Interest

The July 2019 Notes bear an interest rate of 7.25% per annum. Interest is payable semi-annually in arrears on April 19 and October 19 of each year, commencing April 19, 2020.

Covenants

Subject to certain conditions and exceptions, the July 2019 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the Company or any Subsidiary Guarantor;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay;
- dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The July 2019 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the July 2019 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the July 2019 Indenture. If an event of default occurs and is continuing, the trustee under the July 2019 Indenture or the holders of at least 25% of the outstanding July 2019 Notes may declare the principal of the July 2019 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding July 2019 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the July 2019 Notes is April 19, 2023.

At any time and from time to time on or after July 19, 2021, we may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on July 19, 2021 and the nine-month period beginning on July 19, 2022.

Period	Redemption Price
July 19, 2021	103.625%
July 19, 2022 and thereafter	101%

At any time prior to July 19, 2021, the Company may at its option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2019 Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date. At any time and from time to time prior to July 19, 2021, the Company may redeem up to 35% in aggregate principal amount of the July 2019 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 107.25% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% in aggregate principal amount of the July 2019 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On July 19, 2019, the trustee of the July 2019 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a pari passu basis with other secured parties under the Intercreditor Agreement.

The November 2020 Notes

On November 2, 2020, we entered into an indenture (as amended and supplemented from time to time, the “November 2020 Indenture”) pursuant to which we issued US\$500,000,000 7.0% senior notes due 2025.

Guarantee

The obligations pursuant to the November 2020 Notes are guaranteed by the Subsidiary Guarantors specified in the November 2020 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited recourse guarantee, referred to as a JV Subsidiary Guarantee in the November 2020 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other payable under, the November 2020 Notes.

Collateral

In order to secure the obligations under the November 2020 Notes, the Company and the Subsidiary Guarantors under the November 2020 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the November 2020 Notes. The Collateral may be released or reduced in the event of the certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor under the November 2020 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the November 2020 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the November 2020 Indenture.

Interest

The November 2020 Notes bear an interest rate of 7.0% per annum. Interest is payable semiannually in arrears on May 2 and November 2 of each year, commencing May 2, 2021.

Covenants

Subject to certain conditions and exceptions, the November 2020 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the Company or any Subsidiary Guarantor;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay;
- dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The November 2020 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the November 2020 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the November 2020 Indenture. If an event of default occurs and is continuing, the trustee under the November 2020 Indenture or the holders of at least 25% of the outstanding November 2020 Notes may declare the principal of the November 2020 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding November 2020 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the November 2020 Notes is May 2, 2025.

At any time and from time to time on or after May 2, 2023, we may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Period	Redemption price
2023	103.5%
2024 and thereafter	101.0%

At any time prior to May 2, 2023, the Company may at its option redeem the November 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the November 2020 Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date. At any time and from time to time prior to May 2, 2023, the Company may redeem up to 35% in aggregate principal amount of the November 2020 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 107.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% in aggregate principal amount of the November 2020 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On November 2, 2020, the trustee of the November 2020 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a pari passu basis with other secured parties under the Intercreditor Agreement.

The February 2021 Notes

On February 4, 2021, we entered into an indenture (as amended and supplemented from time to time, the “February 2021 Indenture”) pursuant to which we issued US\$350,000,000 6.0% senior notes due 2026.

Guarantee

The obligations pursuant to the February 2021 Notes are guaranteed by the Subsidiary Guarantors specified in the February 2021 Indenture. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited recourse guarantee, referred to as a JV Subsidiary Guarantee in the February 2021 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other payable under, the February 2021 Notes.

Collateral

In order to secure the obligations under the February 2021 Notes, the Company and the Subsidiary Guarantors under the February 2021 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the February 2021 Notes. The Collateral may be released or reduced in the event of the certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor under the February 2021 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the February 2021 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the February 2021 Indenture.

Interest

The February 2021 Notes bear an interest rate of 6.0% per annum. Interest is payable semiannually in arrears on February 4 and August 4 of each year, commencing August 4, 2021.

Covenants

Subject to certain conditions and exceptions, the February 2021 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock; making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the Company or any Subsidiary Guarantor;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay;
- dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The February 2021 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the February 2021 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the February 2021 Indenture. If an event of default occurs and is continuing, the trustee under the February 2021 Indenture or the holders of at least 25% of the outstanding February 2021 Notes may declare the principal of the February 2021 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding February 2021 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the February 2021 Notes is February 4, 2026.

At any time and from time to time on or after February 4, 2024, we may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Period	Redemption price
2024	103.0%
2025 and thereafter	101.0%

At any time prior to February 4, 2024, the Company may at its option redeem the February 2021 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the February 2021 Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date. At any time and from time to time prior to February 4, 2024, the Company may redeem up to 35% in aggregate principal amount of the February 2021 Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price equal to 106.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% in aggregate principal amount of the February 2021 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Intercreditor Agreement

On February 4, 2021, the trustee of the February 2021 Notes executed a supplement to the Intercreditor Agreement to become a secured party and share the Collateral thereunder on a *pari passu* basis with other secured parties under the Intercreditor Agreement.

Domestic Bonds

In August 2019, Xiamen Zhongjun Industrial Co., Ltd., our wholly-owned subsidiary, issued domestic corporate bonds in the PRC with a principal amount of RMB540.0 million, a coupon rate of 6.95% and a term of 4 years. At the end of the second year subsequent to the inception date in August 2019, Xiamen Zhongjun Industrial Co., Ltd. as the issuer is entitled to adjust the interest rate. The holders of the domestic bonds due in August 2023 may at their options to sell back the bonds to Xiamen Zhongjun Industrial Co., Ltd. in whole or in part at their principal amounts at any time prior to the maturity. In July 2020, Xiamen Zhongjun Industrial Co., Ltd. issued domestic corporate bonds in the PRC with a principal amount of RMB1,460.0 million, a coupon rate of 5.5% and a term of 4 years. At the end of the second year subsequent to the inception date in July 2020, Xiamen Zhongjun Industrial Co., Ltd. as the issuer is entitled to adjust the interest rate and the holders of the domestic bonds due in July 2024 may at their options sell back the bonds to Xiamen Zhongjun Industrial Co., Ltd. in whole or in part at their principal amounts at any time prior to the maturity. In October 2020, Xiamen Zhongjun Industrial Co., Ltd. issued domestic corporate bonds in the PRC with a principal amount of RMB2 billion, a coupon rate of 5.5% and a term of 5 years. At the end of the second year and fourth year subsequent to the inception date in October 2020, Xiamen Zhongjun Industrial Co., Ltd. as the issuer is entitled to adjust the interest rate and the holders of the domestic bonds due in October 2025 may at their options sell back the bonds to Xiamen Zhongjun Industrial Co., Ltd. in whole or in part at their principal amounts at any time prior to the maturity. All domestic bonds are listed on the Shenzhen Stock Exchange.

PRC Bank Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, primarily Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, China Merchants Bank Co., Ltd. and Ping An Bank Co., Ltd. These loans are typically secured project or secured working capital loans to finance the construction of our projects and generally have terms ranging from 1 year to 3 years, which, in the case of project loans, generally correspond to the construction periods of the particular projects. The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will be structurally subordinated to these loans and any other indebtedness incurred by our PRC Subsidiaries. As of June 30, 2020, the balance of our PRC bank loans was RMB15,534.5 million (US\$2,198.8 million).

Interest

The principal amounts outstanding under the loans generally bear interest at floating rates calculated by reference to PBOC's benchmark interest rate per annum. Floating interest rates generally are subject to periodic review by the banks. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

Covenants

Under these loans, many of our subsidiary borrowers have agreed, among other things, to restrictions on taking the following actions without first obtaining the lenders' prior consent:

- creating encumbrances on their properties or assets;
- granting guarantees to third parties;
- making major changes to their corporate structures, such as entering into joint ventures, mergers or acquisitions and reorganizations or making other changes to the company's status, such as by liquidation or dissolution;
- altering the nature or scope of their business operations in any material respect;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing of assets;
- incurring other indebtedness; and
- paying dividends.

Guarantee and security

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the PRC bank loans pursuant to which these subsidiaries and associates have guaranteed all liabilities of the subsidiary borrowers under these loans. Our obligations under the loan agreements are typically secured by mortgages over the land use right for the projects.

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks creating mortgages on our real estate.

Offshore Facility Agreements

We have entered into facility agreements with offshore banks and financial institutions, including, without limitation, China CITIC Bank International Limited, The Bank of East Asia, Limited, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and Chiyu Banking Corporation Ltd.

Guarantee and security

The obligations pursuant to the 2018 HK Syndicated Loan are guaranteed by the same subsidiaries acting as subsidiary guarantors for the Existing Notes and the Notes (the "2018 HK Syndicated Loan Subsidiary Guarantors"). Each of the 2018 HK Syndicated Loan Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2018 HK Syndicated Loan. The 2018 HK Syndicated Loan and the subsidiary guarantees provided by the 2018 HK Syndicated Loan Subsidiary Guarantors are secured by the Collateral.

The obligations pursuant to the 2019 HK Syndicated Loan are guaranteed by the same subsidiaries acting as subsidiary guarantors for the Existing Notes and the Notes (the “the 2019 HK Syndicated Loan Subsidiary Guarantors”). Each of the 2019 HK Syndicated Loan Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2019 HK Syndicated Loan. The 2019 HK Syndicated Loan and the subsidiary guarantees provided by the 2019 HK Syndicated Loan Subsidiary Guarantors are secured by the Collateral.

The obligations pursuant to the 2021 HK Syndicated Loan are guaranteed by the same subsidiaries acting as subsidiary guarantors for the Existing Notes and the Notes (the “the 2021 HK Syndicated Loan Subsidiary Guarantors”). Each of the 2021 HK Syndicated Loan Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2021 HK Syndicated Loan. The 2021 HK Syndicated Loan and the subsidiary guarantees provided by the 2021 HK Syndicated Loan Subsidiary Guarantors are secured by the Collateral.

Certain other offshore loans are secured by fixed assets and others are not guaranteed.

Interest

The principal amounts outstanding under these loans generally bear interest at floating rates calculated with reference to the London Interbank Offered Rate, Hong Kong Interbank Offered Rate, or the RMB Prime Rate of the banks.

Covenants

Our loans contains customary covenants and restrictions, including, amongst others, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net borrowings and interest coverage ratios.

Events of default

These offshore facilities contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

Trust Financing

From time to time, our PRC subsidiaries enter into financing arrangements with trust financing institutions. These trust financing institutions provide trust loans for purposes of our project development in return for interest payments, and have terms generally ranging from 24 to 36 months. Some of the trust financing arrangements are guaranteed by us or secured by the relevant PRC subsidiaries' shares (through share pledge or ownership of shares) or land use rights in favor of the trust financing institutions, or a combination of these. The trust financing arrangements contain customary events of default, including non-payment of principal or interest and breaches of the terms of the arrangements. If an event of default has occurred, the trust financing institutions may, without prior notice, exercise their rights to realize the security held under the share pledge agreements and land mortgage agreements, and demand payments from us as guarantor.

Customer Guarantees

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank. As of June 30, 2020, the aggregate outstanding amount of mortgage loans we guaranteed was RMB19,738.2 million (US\$2,793.8 million).

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to China SCE Group Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined below) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and DB Trustees (Hong Kong) Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Intercreditor Agreement (as defined below). This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Intercreditor Agreement. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the Existing *Pari Passu* Secured Indebtedness and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral;”
- effectively subordinated to the secured obligations, if any (other than Permitted *Pari Passu* Secured Indebtedness) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

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

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens and shared on a *pari passu* basis with (i) the holders of the Existing *Pari Passu* Secured Indebtedness and (ii) any holders of other Permitted *Pari Passu* Secured Indebtedness); and

- rank effectively senior in right of payment to unsecured obligations of the Company and the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on September 29, 2024 unless earlier redeemed pursuant to the term thereof and the Indenture.

The Notes will bear interest at 5.95% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on March 29 and September 29 of each year (each an "Interest Payment Date"), commencing September 29, 2021. Interest on the Notes will be paid to Holders of record at the close of business on March 14 or September 14 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes 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 December 25 and January 1.

Except as described under "Optional Redemption," "Redemption for Taxation Reasons" and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the intervening period.

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the office of the Paying Agent, currently located at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Affluent Way International Limited, Ally Health Investments Limited, Bohai International Investment Limited, Bonder Global Investment Limited, Dragon Tale Investments Limited, Flash Ruby International Limited, Harbour Full Investments Limited, Max Fresh Investments Limited, Max Gain Investments Limited, New Bright Construction & Landscape Limited, New Sky Investments Limited, Onwealth Investments Limited, Precise Profit Investments Limited, Royal Dragon International Advertising Limited, Sea Base Investment Limited, Sourceup International Limited, South China Group (H.K.) Limited, South China Property International Limited, Star Sun Investments Limited, Sunny Fond Investment Limited, Sunsonic Investments Limited, Wealth Grow Investments Limited. These Subsidiary Guarantors consist of all of the Company's Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (defined below). The Subsidiary Guarantors are holding companies that do not have significant operations.

None of the existing Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future and no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future (together, the "PRC Restricted Subsidiaries"). Other than the initial Subsidiary Guarantors, none of the Company's other Restricted Subsidiaries organized outside of the PRC (the "Existing Offshore Non-Guarantor Subsidiaries") will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date. None of the Exempted Subsidiaries (as long as they continue to be Exempted Subsidiaries) will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, the Company may designate any Offshore Subsidiary (other than Exempted Subsidiaries and Listed Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary (each, a "Designated Offshore Non-Guarantor Subsidiary" and, together with the Existing Offshore Non-Guarantor Subsidiaries, the "Offshore Non-Guarantor Subsidiaries"), subject to the limitations described below under "Offshore Non-Guarantor Subsidiaries." The Offshore Non-Guarantor Subsidiaries, together with the PRC Restricted Subsidiaries, the Exempted Subsidiaries and the Listed Subsidiaries are referred to as the "Non-Guarantor Subsidiaries." Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company. The Company will cause each of its future Restricted Subsidiaries (other than the Non-Guarantor Subsidiaries) promptly and in any event within 30 days of becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a "Future Subsidiary Guarantor" and upon execution of the applicable supplemental indenture to the Indenture will be a "Subsidiary Guarantor."

Offshore Non-Guarantor Subsidiaries

An Offshore Subsidiary that is a Restricted Subsidiary (other than Exempted Subsidiaries and Listed Subsidiaries) need not provide a Subsidiary Guarantee or JV Subsidiary Guarantee if it is designated by the Board of Directors as a Designated Offshore Non-Guarantor Subsidiary. The Board of Directors may designate any Offshore Subsidiary to be a Designated Offshore Non-Guarantor Subsidiary if:

- (1) at any time of determination, the total Non-Guaranteed Portion would not exceed 25.0% of Total Assets; and
- (2) such designation would not cause a Default.

The Board of Directors may at any time remove the designation of any Offshore Non-Guarantor Subsidiary (including, for the avoidance of doubt, any Existing Offshore Non-Guarantor Subsidiary) as such, and unless such Offshore Subsidiary (other than Exempted Subsidiaries and Listed Subsidiaries) is designated an Unrestricted Subsidiary, it will become a Subsidiary Guarantor or JV Subsidiary Guarantor and execute a supplemental indenture pursuant to which it will Guarantee the Notes under a Subsidiary Guarantee or a JV Subsidiary Guarantee in accordance with the provisions of the Indenture, within 30 days of the date on which its designation as an Offshore Non-Guarantor Subsidiary was removed. Simultaneously, the Company will cause all of the Capital Stock in such Offshore Subsidiary (unless it is an Exempted Subsidiary, a Listed Subsidiary or the Subsidiary of a JV Subsidiary Guarantor) owned by the Company and its Restricted Subsidiaries to be pledged to secure the Notes, the Subsidiary Guarantees and any Permitted Pari Passu Secured Indebtedness, within 30 days of the date on which its designation as an Offshore Non-Guarantor Subsidiary was removed.

Any designation of an Offshore Subsidiary as an Offshore Non-Guarantor Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions.

The JV Subsidiary Guarantees

In the case of a Restricted Subsidiary (i) that is organized in any jurisdiction other than the PRC, (ii) that is neither an Exempted Subsidiary, a Listed Subsidiary nor an Offshore Non-Guarantor Subsidiary and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20.0% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent third party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;"

- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than the Non-Guarantor Subsidiaries) and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Shared Security Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of June 30, 2020, the Company and its consolidated subsidiaries had total consolidated indebtedness of approximately RMB45,507.8 million (US\$6,441.2 million), of which RMB41,171.4 million (US\$5,827.4 million) was secured.

As of June 30, 2020, the Non-Guarantor Subsidiaries had total liabilities of approximately RMB13,606.6 million (US\$1,925.9 million) and the Non-Guarantor Subsidiaries had capital commitments of approximately RMB711.8 million (US\$100.7 million) and contingent liabilities of approximately RMB3,641.2 million (US\$515.4 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets (other than the Collateral) serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with the Existing Pari Passu Secured Indebtedness and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

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

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;

- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens and shared on a *pari passu* basis with (i) the holders of the Existing Pari Passu Secured Indebtedness and (ii) any holders of other Permitted Pari Passu Secured Indebtedness) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “— Security”; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

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

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and the JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other Indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such Indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon satisfaction and discharge as described under "Satisfaction and Discharge;"
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary or an Offshore Non-Guarantor Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or consolidation of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Certain Covenants — Limitation on Asset Sales" and "— Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture; or
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or a JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such

sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20.0% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance is made to an Independent third party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than the Non-Guarantor Subsidiaries) and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Shared Security Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale or issuance of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

Security

The Company has pledged or extended the benefit of the security interest over, or caused the initial Subsidiary Guarantor Pledgors to pledge or so extend, as the case may be, the Capital Stock of all of the initial Subsidiary Guarantors (the "Collateral") owned by the Company or the Subsidiary Guarantor Pledgors on a first priority basis (subject to Permitted Liens and the

Intercreditor Agreement) in order to secure the obligations of the Company and such Subsidiary Guarantor Pledgors under the Existing Notes and the related subsidiary guarantees, the Notes and the Subsidiary Guarantees, the 2018 HK Syndicated Loan, the 2019 HK Syndicated Loan, the 2021 HK Syndicated Loan, and other Permitted *Pari Passu* Secured Indebtedness. The Company and the initial Subsidiary Guarantor Pledgors have:

- (a) executed one or more Security Documents granting to the Shared Security Trustee, for the benefit of the Secured Parties, first priority Liens (subject to any Permitted Liens and *pari passu* sharing as described below) (collectively, the “First Priority Lien”) on relevant Collateral;
- (b) taken all requisite steps under applicable laws and undertake other customary procedures in connection with the granting and perfection (if relevant) of the First Priority Lien on relevant Collateral (subject to any Permitted Liens and the Intercreditor Agreement); and
- (c) delivered to the Trustee an Opinion of Counsel and Officers’ Certificate relating to each such pledge in form and substance as set forth in the Indenture.

The initial Subsidiary Guarantor Pledgors are Affluent Way International Limited, Ally Health Investments Limited, Bonder Global Investment Limited, Dragon Tale Investments Limited, Harbour Full Investments Limited, New Sky Investments Limited, Onwealth Investments Limited, Precise Profit Investments Limited, Sourceup International Limited, Sunsonic Investments Limited and Wealth Grow Investments Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date. In addition, none of the Capital Stock of any future Non-Guarantor Subsidiary will be pledged at any time in the future, *provided* that if any of the Non-Guarantor Subsidiaries becomes a Subsidiary Guarantor or a JV Subsidiary Guarantor after the Original Issue Date, the Capital Stock (directly owned by the Company or any Subsidiary Guarantor) of such Subsidiary Guarantor or the Capital Stock (directly owned by the Company or any Subsidiary Guarantor) of such JV Subsidiary Guarantor, as the case may be, will be pledged, as soon as practicable after it becomes a Subsidiary Guarantor, to secure the obligations of the Company under the Notes and the Indenture, and of the Subsidiary Guarantors under the Subsidiary Guarantees, in the manner described above. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Shared Security Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary or any additional Capital Stock of an existing Restricted Subsidiary acquired by the Company or such Subsidiary Guarantor (other than, in each case, the Non-Guarantor Subsidiaries) after the Original Issue Date, as soon as practicable after such Person becomes a Restricted Subsidiary to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis by the holders of the Existing *Pari Passu* Secured Indebtedness and any holders of Permitted *Pari Passu* Secured Indebtedness pursuant to the Intercreditor Agreement (as defined below). As of the date of this offering memorandum, the aggregate principal amount outstanding under the 2018 HK Syndicated

Loan is HK\$2,854.9 million and US\$8.1 million, and the aggregate principal amount outstanding under the 2019 HK Syndicated Loan is HK\$516.0 million and US\$180.0 million. Accordingly, in the event of a default on the Notes, any Existing *Pari Passu* Secured Indebtedness or any Permitted *Pari Passu* Secured Indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the Holders with holders of such other secured indebtedness in proportion to the outstanding amounts of each such class of indebtedness. The proceeds realizable from the Collateral securing the Notes and the Subsidiary Guarantees (as reduced by the obligations to share such proceeds *pro rata* with the other secured creditors under the Intercreditor Agreement) are unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantee may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See "— Release of Security" and "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes."

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any *Pari Passu* Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such *Pari Passu* Guarantee, "Permitted *Pari Passu* Secured Indebtedness"); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to incur such Indebtedness under the covenant under the caption "— Limitation on Indebtedness and Preferred Stock", (2) the holders (or their representative) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below, and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Shared Security Trustee an Opinion of Counsel and an Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents, financing statements or other instruments necessary to make effective the Liens intended to be created by the Security Documents, and reciting the details of such action or (y) no such action is necessary to make such Lien effective. The Trustee or the Shared Security Trustee, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents, the Intercreditor Agreement or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted *Pari Passu* Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders, the holders of the Existing *Pari Passu* Secured Indebtedness and the holders of Permitted *Pari Passu* Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Notwithstanding anything above, the indebtedness under the Existing Pari Passu Secured Indebtedness will constitute Permitted Pari Passu Indebtedness and share in the Collateral beginning from the date on which the first security under the Security Documents was granted.

Intercreditor Agreement

The Company, the initial Subsidiary Guarantor Pledgors, Deutsche Bank Trust Company Americas as shared security trustee (the “Shared Security Trustee”) among others have entered into an intercreditor agreement dated January 14, 2011 (to which DB Trustees (Hong Kong) Limited as trustee with respect to the 2017 Notes acceded on March 10, 2017, with respect to the 2018 Notes acceded on April 17, 2018, with respect to the April 2019 Notes acceded on April 9, 2019, with respect to the July 2019 Notes acceded on July 19, 2019, with respect to the November 2020 Notes acceded on November 2, 2020, with respect to the February 2021 Notes acceded on February 4, 2021 and Hang Seng Bank Limited as agent on behalf of the finance parties under the 2018 HK Syndicated Loan acceded on March 14, 2018, the 2019 HK Syndicated Loan acceded on September 6, 2019 and the 2021 HK Syndicated Loan acceded on March 22, 2021; as so amended and supplemented from time to time, the “Intercreditor Agreement”) to which the Trustee will accede on the Original Issue Date, pursuant to which they agree, among other things, that (1) the Holders, the holders of the Existing Pari Passu Secured Indebtedness and the holders of Permitted Pari Passu Secured Indebtedness shall share equal priority and *pro rata* entitlement in and to the Collateral, (2) the Collateral shall only be substituted or released and Liens shall only be granted on the Collateral to the extent permitted under both the Indenture and the Secured Party Documents; and (3) the parties thereto shall enforce their rights with respect to the Collateral and the Indebtedness secured thereby as described in “— Enforcement of Security” below.

In order to be treated as Permitted Pari Passu Secured Indebtedness, the holders of any future Indebtedness that the Company wishes to treat as Permitted Pari Passu Secured Indebtedness (other than Additional Notes), or their representative, must first accede to the Intercreditor Agreement to join the holders of such Permitted Pari Passu Secured Indebtedness or their representative as parties to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any amendments or modifications thereto, any accession thereto by any holder of Permitted Pari Passu Secured Indebtedness and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, will be granted to the Shared Security Trustee, subject to the Intercreditor Agreement. The Shared Security Trustee will hold such liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of any secured party to the Intercreditor Agreement to exercise remedies under the Security Documents in accordance with the terms of the Intercreditor Agreement. The Shared Security Trustee has agreed to act as secured party under the applicable Security Documents on behalf of the Trustee (for the benefit of the Holders) and on behalf of the other secured parties to the Intercreditor Agreement, to follow, or cause to be followed, the instructions provided to it by the Majority Secured Parties and to carry out certain other duties as set forth in the Intercreditor Agreement.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Shared Security Trustee has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to directions given by the

secured parties to the Intercreditor Agreement, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Shared Security Trustee in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Shared Security Trustee for any unpaid fees, costs and expenses incurred under the Intercreditor Agreement or the Security Documents;

second, pro rata to each of the Trustee, the trustee, agent or representative of each series of the Existing Pari Passu Secured Indebtedness and any agent or representative of any series of Permitted Pari Passu Secured Indebtedness and any attorney or agent appointed under the Shared Security Documents for any unpaid fees, costs and expenses under the applicable secured party document;

third, in or towards payment to the secured parties, on a *pro rata* basis, of the outstanding obligations under the Existing Pari Passu Secured Indebtedness, the Notes and any other Permitted Pari Passu Secured Indebtedness and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

fourth, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Shared Security Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Shared Security Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Shared Security Trustee's Liens on the Collateral. Neither the Trustee, the Shared Security Trustee nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Shared Security Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Shared Security Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Shared Security Trustee.

This section, "— Enforcement of Security," shall be subject to any amendments to the Security Documents, the Intercreditor Agreement or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "— Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon satisfaction and discharge of the Notes as provided below under the caption “— Satisfaction and Discharge;”
- upon dispositions of the Collateral in compliance with the covenants under the captions “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “— Limitation on Asset Sales” or in accordance with the provision under the caption “— Consolidation, Merger and Sale of Assets;”
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture;
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the release of the Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, of such Subsidiary Guarantor or JV Subsidiary Guarantor, and in accordance with the terms of the Indenture;
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor or JV Subsidiary Guarantor as an Unrestricted Subsidiary or Offshore Non-Guarantor Subsidiary, and in accordance with the terms of the Indenture; or
- with respect to a Lien over the Collateral (or any portion thereof) pledged to secure the Notes, either upon (i) the repayment in full of all amounts owing by the Company or any Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Existing Pari Passu Secured Indebtedness and any Permitted Pari Passu Secured Indebtedness or (ii) the prior or concurrent release of the Lien on the Collateral securing all Existing Pari Passu Secured Indebtedness and any Permitted Pari Passu Secured Indebtedness; provided that in each case, no Default has occurred and is continuing on such date and no Default would have occurred as a result of such release, and each of the Trustee and the Shared Security Trustee shall comply with a release request if the conditions precedent to such release set forth in the Indenture and the Security Documents have been complied with, as evidenced by an Officers’ Certificate from the Company (on which the Trustee and the Shared Security Trustee may rely without liability or responsibility to any person), and the Trustee and the Shared Security Trustee shall take all actions necessary to effect and evidence such release in accordance with the terms of the Indenture and the Security Documents, as applicable, without representation, warranty or recourse.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and the JV Subsidiary Guarantees, if any) in all respects (or in all respects except for the issue date, issue price and the date of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and

form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after September 29, 2023, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to September 29, 2023, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

At any time and from time to time prior to September 29, 2023, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Trustee will select or cause to be selected Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange or are held through a clearing system, in compliance with the requirements of the principal national securities exchange on which the Notes are listed (if any) or the requirements of the clearing system; or
- (2) if the Notes are not listed on any national securities exchange or held through a clearing system, on a *pro rata* basis, by lot or by such method as the Trustee deems fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101.0% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's, the Subsidiary Guarantor's and the JV Subsidiary Guarantor's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The phrase "all or substantially all," as used with respect to the assets of the Company in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal, premium (if any) and interest on the Notes or under the Subsidiary Guarantees and the JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Taxing Jurisdiction”), or any jurisdiction through which payments are made (together with each Relevant Taxing Jurisdiction, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

- (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or such intergovernmental agreement, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100.0% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “Tax Redemption Date”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective, or, in the case of an official position, which change or statement is made (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary (other than a Subsidiary Guarantor) may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu Guarantees;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Restricted Subsidiaries (other than any Subsidiary Guarantor) shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g), (m), (t) and (u) below);

- (d) Indebtedness of the Company or Indebtedness or Preferred Stock of any Restricted Subsidiary owed to or held by the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness or Preferred Stock (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness or Preferred Stock not permitted by this clause (d) and (ii) if the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor and none of the Company, the Subsidiary Guarantors and JV Subsidiary Guarantors is an obligee on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of the Company, the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor, or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, in the case of a JV Subsidiary Guarantor; *provided* further that, any Preferred Stock issued by a Subsidiary Guarantor or a JV Subsidiary Guarantor and held by the Company or another Restricted Subsidiary must by the terms thereof or by operation of law be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
- (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (p), (q), (r), (s), (t), (u), (v), (w), (x) or (y) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes, a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes, a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes, a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes, such Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes, such Subsidiary Guarantee or such JV Subsidiary Guarantee; (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced; (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by

means of any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (h) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (p), (q), (r), (v), (w), (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees Incurred are reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or

any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;

- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the "Limitation on Issuances of Guarantees by Restricted Subsidiaries" covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary maturing within one year; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$40.0 million (or the Dollar Equivalent thereof);
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 18 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transaction under such Staged Acquisition Agreement;
- (p) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a PRC Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness or issuance of such Preferred Stock and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred and Preferred Stock permitted pursuant to this clause (p) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (p) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred under clause (h) above or (q), (r), (v), (w), (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (q) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (q) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (q) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h) or (p) above or (r), (v), (w), (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such

clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;

- (r) (x) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties, and Guarantees thereof by the Company or any Restricted Subsidiary or (y) Capitalized Lease Obligations, or Attributable Indebtedness with respect to a Sale and Leaseback Transaction that would otherwise be permitted under the covenant entitled "Limitation on Sale and Leaseback Transactions", Incurred by any Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (r) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (r) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h), (p) or (q) above or (v), (w), (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (s) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$40.0 million (or the Dollar Equivalent thereof);
- (t) Indebtedness Incurred by a Finance Subsidiary that is guaranteed by the Company to the extent the Company is permitted to Incur such Indebtedness under this covenant;
- (u) Indebtedness Incurred by the Company or a Restricted Subsidiary constituting a Subordinated Shareholder Loan;
- (v) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (v) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (v) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h), (p), (q) or (r) above or (w), (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (w) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (w) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (w) to the extent the

amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h), (p), (q), (r) or (v) above or (x) or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;

- (x) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (x) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (x) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h), (p), (q), (r), (v) or (w) above or (y) below (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets; and
 - (y) Indebtedness Incurred by the Company or any Restricted Subsidiary under Credit Facilities; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (y) (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under this clause (y) to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clauses (h), (p), (q), (r), (v), (w) and (x) above (together with any refinancings thereof, but excluding any Contractor Guarantees or Guarantees Incurred under such clauses to the extent the amount of such Contractor Guarantees or Guarantees is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.
 - (4) Notwithstanding any other provision of the Indenture, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Person other than the Company or any Wholly Owned Restricted Subsidiary other than the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement permitted to be entered into under the Indenture;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption "— Limitation on Indebtedness and Preferred Stock;" or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50.0% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100.0% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the Measurement Date occurred and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100.0% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into

Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (E) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment") but only to the extent (x) that such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c) and (y) that, with respect to Investments in Capital Stock, such Investments do not exceed the Fair Market Value of such Person at the time it becomes a Restricted Subsidiary; plus
- (v) US\$25.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) any dividend or distribution declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of a class of Capital Stock of such Restricted Subsidiary; *provided* that, with respect to a Restricted Subsidiary of which less than, a majority of the Voting Stock is directly or indirectly owned by the Company, such dividend or distribution shall be declared, paid or made on a *pro rata* basis or on a basis more favorable to the Company, as determined by the ownership of the Voting Stock;
- (6) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(p) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (7) the declaration and payment of dividends by the Company in an aggregate amount not to exceed 25.0% of the profit for the year attributable to owners of the parent (or the Dollar Equivalent thereof) with respect to the fiscal year ended December 31, 2010;
- (8) payments made under a Staged Acquisition Agreement to acquire the Capital Stock of a Person *provided* that such Person becomes a Restricted Subsidiary on or before the last date in the period stipulated in such Staged Acquisition Agreement for which the purchase price can be made (such date not to exceed 24 months from the date the Staged Acquisition Agreement was entered into) (the “Deadline Date”); *provided further* that in the event such Person does not become a Restricted Subsidiary on or before the Deadline Date, all payments previously made under this clause (8) shall be aggregated and constitute Restricted Payments made on the Deadline Date and such Restricted Payments must satisfy the other conditions under this “Limitations on Restricted Payments” covenant;
- (9) the redemption, repurchase, retirement or other acquisition of Capital Stock of any Restricted Subsidiary at a consideration not less than the Fair Market Value of such Capital Stocks;

- (10) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this “— Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (11) the distributions or payments of Securitization Fees in connection with Receivable Financings;
- (12) (i) the declaration or payment of dividends in cash on the Common Stock of the Company, (ii) the redemption, repurchase or other acquisition of Capital Stock of the Company or (iii) a combination of (i) and (ii); *provided* that the aggregate amount of any Restricted Payments of such type with respect to any fiscal year of the Company may not exceed 25% of the consolidated profit of the Company calculated in accordance with GAAP for such fiscal year;
- (13) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with an employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), or (C) payments of dividend or other distributions on Capital Stock of any Restricted Subsidiary engaged in any property development projects held by any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing) in connection with an employee benefit plan or employee incentive scheme; *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock shall not exceed US\$20.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (14) payments, including distributions, made under or in connection with any Perpetual Securities Obligation pursuant to the terms thereof; or
- (15) the payment of any dividend or distribution payable or paid solely in Capital Stock (other than Disqualified Stock or Preferred Stock) of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;

provided that, in the case of clause (2), (3), (4), (12) or (15) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an

opinion or appraisal issued by an accounting, appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$25.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (15) above), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

For purposes of determining compliance with this "— Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this "— Limitation on Restricted Payments" covenant and clause (18) of the definition of "Permitted Investment" at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of them.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, the Existing Pari Passu Secured Indebtedness and the subsidiary guarantees and JV subsidiary guarantees thereof, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Guarantee, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not Incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive

in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock of the type described under clause (2)(h), (2)(n), (2)(o), (2)(p), (2)(q), (2)(r), (2)(s), (2)(t), 2(v), 2(w), 2(x) or 2(y) of the covenant entitled “— Limitation on Indebtedness and Preferred Stock” if the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced, *provided* further that, the Board of Directors is empowered to determine as to whether of the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution;
- (g) existing in customary provisions in joint venture agreements, shareholder agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee, *provided* that, the Board of Directors is empowered to determine as to whether of the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or

restrictions are not applicable to any Person or the property or assets of any Person other than such former Unrestricted Subsidiary or its subsidiaries or the property or assets of such former Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, *pro rata* to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the sale or issuance of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such sale or issuance, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such sale or issuance and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant; or
- (4) the sale or issuance of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such sale or issuance); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such sale or issuance in accordance with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Indebtedness is permitted by clauses (2)(c), (d) or (q) (in the case of clause (2)(q), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through Liens over one or more bank accounts or deposits or other assets to secure (or the use of any Guarantee or letter of credit or similar instruments to Guarantee) any Bank Deposit Secured Indebtedness), under the caption "— Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary

Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount, which, absent manifest error, may be conclusively evidenced by an Officers' Certificate from the Company certifying to that effect. The Trustee is fully protected in relying on such an Officers' Certificate with respect to such guarantee given by the relevant JV Subsidiary Guarantor. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an "Affiliate Transaction"), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$30.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other reasonable and customary compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "— Limitation on Restricted Payments" if permitted by that covenant;

- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee benefit, share option or similar schemes, for so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require majority shareholder approval of any such scheme;
- (6) loans or advances to employees, officers or directors in the ordinary course of business not to exceed US\$3.0 million in the aggregate at any one time outstanding;
- (7) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Company or any of its Restricted Subsidiaries with directors, officers, employees and consultants in the ordinary course of business and the payment of compensation pursuant thereto;
- (8) any sale of apartment units by the Company or a Restricted Subsidiary in the ordinary course of business to employees, officers, directors or their respective family members at a discount from the listed price not greater than that applicable generally to all employees of the Company and its Subsidiaries with respect to those apartment units;
- (9) any purchase of Capital Stock of the type specified in clauses (9), (12) and (13) of the second paragraph of the covenant entitled "Limitation on Restricted Payments," so long as each such purchase is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited;
- (10) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off Group entered into in connection with the Qualified Spin-off IPO, including, without limitation, transactions entered into for purposes of any reorganization in connection with the Qualified Spin-off IPO and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Qualified Spin-off IPO; and
- (11) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the Qualified Spin-off IPO, or any amendment, modification, extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the Qualified Spin-off IPO and in compliance with the rules of the relevant Qualified Exchange.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (including Permitted Investments that are permitted under clause (18) of the definition of "Permitted Investment" but otherwise excluding any other Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one part and a Minority Joint Venture, an Associate or an Unrestricted Subsidiary on the other part, and (iv) any Affiliate Transaction that is conducted in accordance with the relevant rules and regulations of The Stock Exchange of Hong Kong Limited, for as long as the Capital Stock of the Company remains listed on The Stock Exchange of Hong Kong Limited; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business, (b) in the

case of a transaction with a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary or being a Subsidiary of the Company), or (c) in the case of a transaction with a Minority Joint Venture, an Associate or an Unrestricted Subsidiary, none of the shareholders or partners (other than the Company or a Restricted Subsidiary) of such Minority Joint Venture, Associate or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Minority Joint Venture, Associate or Unrestricted Subsidiary or by reason of being a Subsidiary, Minority Joint Venture or Associate of the Company).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and

- (3) at least 75.0% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$30.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or Replacement Assets.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Notes and (y) the denominator of which is equal to the Dollar Equivalent of the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the related Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100.0% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in

such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a *pro rata* basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Use of Proceeds

To the extent an offering document is used for the sale of the Notes and the use of proceeds from the sale of the relevant Notes is stated in such offering document or the use of proceeds is otherwise required by applicable laws or regulations, the Company will, and will procure its Restricted Subsidiaries to, use the net proceeds from the sale of the Notes in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans, as contemplated under the caption "Use of Proceeds" in such offering document or such laws or regulations (or, in the case of any Additional Notes, the offering document or the laws or regulations relating to the sale of such Additional Notes). Pending the application of all of such net proceeds in such manner, the Company and the Restricted Subsidiaries may invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support (other than any Guarantee in compliance with clause (6) below) for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company as a result of the designation; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under the caption "— Limitation on Liens;" (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "— Limitation on Restricted Payments" (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Qualified Spin-off Group upon the designation of the Subsidiaries in the Qualified Spin-off Group as Unrestricted Subsidiaries in connection with the Qualified Spin-off IPO, *provided* that (A) the Board of Directors has determined in good faith that the designation of such Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Qualified Spin-off IPO, (B) at the time of such designation, such Subsidiaries remain Subsidiaries of the Company, and (C) at the time of such designation, such Subsidiaries remain primarily engaged in the Non-Core Business).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock;" (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption "— Limitation on Liens;" (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC and is not an Offshore Non-Guarantor Subsidiary,

such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under the caption “— The Subsidiary Guarantees and the JV Subsidiary Guarantees;” and (6) if such Restricted Subsidiary is not organized under the laws of the PRC and is not an Offshore Non-Guarantor Subsidiary or a Subsidiary of a JV Subsidiary Guarantor, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged to the extent required under “— Security.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the businesses of the Company and the Restricted Subsidiaries; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock;”
- (2) “— Certain Covenants — Limitation on Restricted Payments;”
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;”
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;”
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries;”
- (6) “— Certain Covenants — Limitation on the Company’s Business Activities;”
- (7) “— Certain Covenants — Limitation on Sale and Leaseback Transactions;”

- (8) “— Certain Covenants — Limitation on Asset Sales;” and
- (9) clauses (3) and (4) of the first and second paragraphs of “— Consolidation, Merger and Sale of Assets.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal semi-annual periods and showing in reasonable detail the

calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; *provided* that the Company shall not be required to provide such certificate from its external auditors if its external auditors refuse to provide such certificate as a result of a policy of such external auditors and it certifies to such refusal in its Officers' Certificate and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;
- (3) default in the performance or breach of the provisions of the covenant described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "— Security;"
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25.0% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$20.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a payment of principal when due and payable;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$20.0 million (or the Dollar Equivalent thereof) (in excess of amounts that the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary (or any

group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or for any substantial part of the property and assets of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) and such involuntary case or other proceeding remains undismitted and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

- (8) the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or for all or substantially all of the property and assets of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) in the ordinary course of business that shall result in the net assets of such Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a *pro rata* basis or on a basis more favorable to the Company);
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Shared Security Trustee ceases to have a security interest in the Collateral (subject to any Permitted Liens and *pari passu* sharing).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25.0% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25.0% in aggregate principal amount of outstanding Notes, (i) give the Shared Security Trustee a written notice of the occurrence of such continuing Event of Default and (ii) instruct the Shared Security Trustee in accordance with the terms of the Intercreditor Agreement to foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25.0% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes, the Intercreditor Agreement and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes, the Intercreditor Agreement and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption "— Limitation on Indebtedness and Preferred Stock;"
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture

confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and

- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

Notwithstanding the foregoing, the Company, each Subsidiary Guarantor and each JV Subsidiary Guarantor shall be permitted to sell, convey transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) as an entirety or substantially an entirety in one transaction or a series of related transactions (except, in each case, if such properties and assets include any share capital of any Subsidiary Guarantor or JV Subsidiary Guarantor), to any Restricted Subsidiary or any Person that will, upon the consummation of such sale, conveyance, transfer, lease or disposal, become a Restricted Subsidiary.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, the Company and its Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude Holders in any jurisdiction where (a) (i) the solicitation of such consent, waiver or amendment in the manner deemed appropriate by the Company, (ii) the payment of the consideration therefor or (iii) the conduct or completion of a related offer to purchase or exchange the Notes for cash or other securities in the manner deemed appropriate by the Company would be prohibited or would require the Company or any of its Subsidiaries to (A) file a registration statement, prospectus or similar document or subject the Company or any of its Subsidiaries to ongoing periodic reporting or similar requirements under any securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), or conduct a bondholder identification exercise to establish the availability of an exemption from registration under Rule 802 under the Securities Act, in each case which the Company in its sole discretion determines would be burdensome, (B) qualify as a foreign corporation or other entity or as a dealer in securities in such jurisdiction if it is not otherwise required to so qualify, (C) generally consent to service of process in any such jurisdiction or (D) subject the Company or any of its Subsidiaries to taxation in any such jurisdiction if it is not otherwise so subject; or (b) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
 - (a) all of the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust by the Company and thereafter repaid to the Company) have been delivered to the Paying Agent for cancellation; or

- (b) all Notes not theretofore delivered to the Paying Agent for cancellation have become due and payable pursuant to an optional redemption notice or otherwise or will become due and payable within one year, and the Issuer has irrevocably deposited or caused to be deposited with the Paying Agent funds, in cash in U.S. dollars, non-callable U.S. Government Obligations or a combination thereof, in an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Paying Agent for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable written instructions from the Issuer directing the Trustee or the Paying Agent to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor has paid all other sums payable under the Indenture;
- (3) no Default or Event of Default will have occurred and be continuing on the date of such deposit (except for such Default or Event of Default that will cease to continue upon such deposit) and such deposit will not result in a breach or violation of, or constitute a default under, any instruments to which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is a party or by which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is bound (other than the Indenture, the Notes or any Security Document).

In addition, the Company must deliver to the Trustee (i) an Officers' Certificate and Opinion of Counsel stating that all conditions precedent to satisfaction and discharge have been satisfied and (ii) to the extent any non-callable U.S. Government Obligations are deposited, a certificate of an independent accounting firm that the amount of the deposit is sufficient. Notwithstanding the satisfaction and discharge of the Indenture as described above, the obligation of the Company with respect to the payment of indebtedness on the Notes shall survive.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement or any Security Document, may be amended, without notice to or the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document which does not adversely affect the interest of the Holders in any material respect;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor or any Collateral as provided or permitted by the terms of the Indenture;

- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee and the Shared Security Trustee to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture, or any accession to the Intercreditor Agreement by the holders of Permitted Pari Passu Secured Indebtedness (or their representative) and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (11) make any other change that does not materially and adversely affect the rights of any Holder; or
- (12) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

Amendments of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement or any Security Document may be made by the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Subsidiary Guarantor Pledgors, the Trustee and the Shared Security Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in aggregate principal amount of the outstanding Notes may waive future compliance by the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Subsidiary Guarantor Pledgors with any provision of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, any Security Document or the Intercreditor Agreement; provided, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “— Limitation on Asset Sales;”
- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons;”
- (14) amend, change or modify the obligation of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Concerning the Trustee, Shared Security Trustee and the Paying Agent

DB Trustees (Hong Kong) Limited has been appointed as Trustee under the Indenture, Deutsche Bank AG, Hong Kong Branch has been appointed as registrar and Deutsche Bank AG, Hong Kong Branch has been appointed as paying agent (the "Paying Agent") and transfer agent with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Trustee shall not be deemed to have knowledge of an Event of Default until one of its Responsible Officers has actual knowledge thereof or receipt of written notice thereof.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Deutsche Bank Trust Company Americas acts as the Shared Security Trustee under the Security Documents and the Intercreditor Agreement in respect of the security over the Collateral. The Shared Security Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Intercreditor Agreement and the Security Documents. Under certain circumstances, the Shared Security Trustee may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Trustee, the Holders, the holders of the Existing Pari Passu Secured Indebtedness and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Shared Security Trustee will be under any obligation to exercise any rights or powers conferred under the Intercreditor Agreement, the Indenture or any of the Security Documents for the benefit of the Holders, the holders of the Existing Pari Passu Secured Indebtedness or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders, the holders of the Existing Pari Passu Secured Indebtedness and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Shared Security Trustee indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Shared Security Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Shared Security Trustee in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the "Global Note"). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the "book-entry interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Note (i.e., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Note

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time,

Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets.

Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by first-class postage prepaid mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee and marked “Attn: Corporates Team — China SCE Group Holdings Limited;” and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Corporation Service Company for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York. The relevant Security Documents are governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor whose shares are pledged is incorporated. The Intercreditor Agreement is governed by Hong Kong law.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2017 Notes” means the 5.875% Senior Notes due 2022 of the Company.

“2018 HK Syndicated Loan” means the HK\$3,172,100,000 and US\$9,000,000 dual tranche term loan facility dated March 14, 2018 among the Company as borrower, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited as mandated lead arrangers and bookrunners and Hang Seng Bank Limited as agent, as guaranteed by certain of the Company’s subsidiaries listed in schedule 1 thereto.

“2018 Notes” means the 7.45% Senior Notes due 2021 of the Company.

“2019 HK Syndicated Loan” means the HK\$516,000,000 and US\$180,000,000 dual tranche term loan facility dated September 6, 2019 among the Company as borrower, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited as mandated lead arrangers and bookrunners and Hang Seng Bank Limited, The Bank of East Asia, Limited, CMB Wing Lung Bank Limited and Luso International Banking Ltd. and 南洋商業銀行(中國)有限公司深圳分行 (Nanyang Commercial Bank (China) Limited, Shenzhen Branch) as agent, as guaranteed by certain of the Company’s subsidiaries listed in schedule 1 thereto.

“2021 HK Syndicated Loan” means the HK\$351,000,000 and US\$342,500,000 dual tranche term loan facility dated March 22, 2021 among the Company as borrower, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and Hang Seng Bank Limited, as mandated lead arrangers and bookrunners, and Bank of China (Hong Kong) Limited as agent, as guaranteed by certain of the Company’s subsidiaries listed in schedule 1 thereto.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity

corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after September 29, 2023 yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person, whether now or in the future, as of the date on which, or at any time during the period for which, the determination of affiliation is being made, (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note on September 29, 2023 (such redemption price being set forth in the table appearing above under the caption “— Optional Redemption”) plus (y) all required remaining scheduled interest payments due on such Note through September 29, 2023 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date. For the avoidance of doubt, calculation of the Applicable Premium will be made by the Company or on behalf of the Company by such Person as the Company shall designate; provided that such calculation or the correctness thereof shall not be a duty or obligation of the Trustee or any agents.

“April 2019 Notes” means the 7.375% Senior Notes due 2024 of the Company.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; provided that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;

- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets;”
- (7) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary;
- (8) any sale, transfer or other disposition of assets by the Company or any of its Restricted Subsidiaries to any Person that becomes a Restricted Subsidiary upon consummation of such sale, transfer or disposition of assets;
- (9) Any disposition of Receivable Financing Assets in connection with any Receivable Financing which constitutes Indebtedness Incurred in compliance with the covenants described under “— Certain Covenants — Limitation on Indebtedness” and “— Certain Covenants — Limitation on Liens;” and
- (10) sales, transfers or other dispositions by the Qualified Spin-off Group of up to 30% of the Capital Stock of the Qualified Spin-off Group if (i) such Capital Stock is issued following the designation of the Qualified Spin-off Group as an Unrestricted Subsidiary and (ii) such sale, transfer or disposition is made in connection with a Qualified IPO of the Qualified Spin-off Group.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is (i) secured by a Lien over one or more bank accounts or deposits or other assets of the Company or a Restricted Subsidiary or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchanges of foreign currencies into Renminbi or vice versa, or to remit Renminbi or any foreign currency into or outside the PRC.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions or trust companies in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person, *provided* that Capitalized Lease shall not include any lease liability which would have been classified as “operating lease” before the adoption of HKFRS 16 (or the equivalent standard under GAAP).

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 30.0% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least two Rating Agencies, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to manage exposure to fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to September 29, 2023 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to September 29, 2023.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is available, Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense;
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets) including, without limitation, land appreciation tax; and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than accrual of revenue in the ordinary course of business and other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary and, for the avoidance of doubt, distributions Incurred or accrued or payments on any Perpetual Securities Obligation shall not be included in the calculation of Consolidated Fixed Charges.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) to the extent such interest has become payable by the Company or such Restricted Subsidiary; and (7) any capitalized interest, *provided* that Consolidated Interest Expense shall not include (x) interest expense arising from lease liability which would have been classified as “operating lease” before the adoption of HKFRS 16 (or the equivalent standard under GAAP) and (y) interest expense arising from pre-sale receipts in advance from customers; and *provided further* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period and, for the avoidance of doubt, distributions Incurred or accrued or payments on any Perpetual Securities Obligation shall not be included in the calculation of Consolidated Interest Expense.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;

- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and/or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains,

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of the Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income; and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Core Businesses” means the development of residential properties in the PRC for sale.

“Credit Facilities” means one or more of the facilities or arrangements with one or more banks or other lenders or institutions providing for revolving credit loans, term loans, receivables financings (including without limitation through the sale of receivables or assets to such institutions or to special purpose entities formed to borrow from such institutions against such receivables or assets or the creation of any Liens in respect of such receivables or assets in favor of such institutions), letters of credit or other Indebtedness, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with any of the foregoing, including but not limited to any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledge agreements, security agreements and collateral documents, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other

banks, lenders or institutions or otherwise, and whether provided under any original Credit Facility or one or more other credit agreements, indentures, financing agreements or other Credit Facilities or otherwise). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder (*provided* that such increase is permitted under the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) or (4) otherwise altering the terms and conditions thereof.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to manage exposure to fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending banks as security for such borrowings, provided that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; provided that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV, as operator of the Euroclear System.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee, a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Existing Bank Loans” means the 2018 HK Syndicated Loan, the 2019 HK Syndicated Loan and the 2021 HK Syndicated Loan.

“Existing Notes” means the 2017 Notes, the 2018 Notes, the April 2019 Notes, the July 2019 Notes, the November 2020 Notes and the February 2021 Notes.

“Existing Pari Passu Secured Indebtedness” means the Existing Bank Loans and the Existing Notes.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“February 2021 Notes” means the 6.0% Senior Notes due 2026 of the Company.

“Finance Subsidiary” means any Person who is Wholly Owned by the Company and who does not engage in any business activity except (1) the incurrence of Indebtedness the entire proceeds of which are on-lent to the Company, (2) the Guarantee of the Indebtedness of the Company permitted to be incurred under the Indenture, (3) activity related to the establishment or maintenance of that Person’s corporate existence, and (4) any other activity in connection with or incidental to activities referred to in clauses (1) through (3).

“Fitch” means Fitch Ratings Ltd. and its successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent period of four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted

Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided*

that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person. For avoidance of doubt, such Indebtedness Guaranteed by such Person will not be deemed as Indebtedness of such Person and only such Guarantee will be deemed as such Person’s Indebtedness);
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness.”

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, deferred payment obligations, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) (2) any Entrusted Loans”, or (3) any Perpetual Securities Obligation; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the "Limitation on Indebtedness and Preferred Stock" covenant, and (ii) equal to the net amount payable if such Hedging Obligation terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

"Independent third party" means any Person that is not an Affiliate of the Company.

"Intercreditor Agreement" has the meaning set forth under "— Security."

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to manage exposure to fluctuations in interest rates.

"Investment" means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the "Designation of Restricted and Unrestricted Subsidiaries" and "Limitation on Restricted Payments" covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company's proportional interest in the Fair Market Value of the assets (net of the Company's proportionate interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "—" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for Fitch.

"Investment Property" means any property that is owned and held by any Restricted Subsidiary primarily for long-term rental yield or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary, and such Minority Joint Venture’s Subsidiaries.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “— The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listed Subsidiaries” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; *provided* that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“Loan Documents” means the Existing Bank Loans and the related guarantees, and such other agreements, instruments and certificates executed and delivered (or issued) by any Loan Obligor in connection with the transactions contemplated thereby.

“Loan Obligations” means all present and future obligations, contingent or otherwise, of the Loan Obligors to the corresponding lenders arising under or pursuant to the Loan Documents, including any interest, fees and expenses accruing after the initiation of any insolvency proceeding (irrespective of whether such interest, fees and expenses are allowed as a claim in such proceeding).

“Loan Obligors” means the Company and certain of its subsidiaries as guarantors and/or security providers with respect to the Existing Bank Loans, and a “Loan Obligor” means any one of them.

“Majority Secured Parties” means the Secured Parties which have provided a written instruction or instructions to the Shared Security Trustee and collectively represent more than 50% of the aggregate of the Note Obligations, Loan Obligations and Permitted Pari Passu Secured Obligations outstanding at such time, calculated, to the extent any such obligations are not in US Dollars, based on the Shared Security Trustee’s spot rate of exchange for the purchase of the applicable currencies in US Dollars in the New York foreign exchange market at or about 11.00 a.m. (New York time) on the date of determination.

“Measurement Date” means January 14, 2011.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent third party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital

Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any sale or issuance of Capital Stock, the proceeds of such sale or issuance in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such sale or issuance and net of taxes paid or payable as a result thereof.

“Non-Core Businesses” means any business other than the Core Businesses.

“Non-Core Entity” means any Restricted Subsidiary which is primarily engaged, directly or indirectly, in a Non-Core Business.

“Non-Guaranteed Portion” means, at any time of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of all Offshore Non-Guarantor Subsidiaries (other than Exempted Subsidiaries or Listed Subsidiaries) as shown on the balance sheet of such Offshore Non-Guarantor Subsidiaries for the most recently ended full fiscal quarter for which financial statements (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements of the Offshore Non-Guarantor Subsidiaries); *provided* that, when calculating the Non-Guaranteed Portion, *pro forma* effect shall be given to (i) any designation of an Offshore Subsidiary as an Offshore Non-Guarantor Subsidiary (or any designation of an Offshore Non-Guarantor Subsidiary as a Subsidiary Guarantor or JV Subsidiary Guarantor) giving rise to the calculation of the Non-Guaranteed Portion and (ii) any

other Offshore Subsidiary that was designated an Offshore Non-Guarantor Subsidiary (or Offshore Non-Guarantor Subsidiary that was designated as a Subsidiary Guarantor or JV Subsidiary Guarantor) after the end of such fiscal quarter.

“Non-Guarantor Subsidiaries” has the meaning given to such term under the section entitled “— The Subsidiary Guarantees.”

“Note Documents” means the Indenture and the Notes, the Existing Notes and the indenture for each series of the Existing Notes, and such other agreements, instruments and certificates executed and delivered (or issued) by the Company or any Subsidiary Guarantor pursuant to the foregoing documents.

“Note Obligations” means all present and future obligations, contingent or otherwise, of the Company and the Subsidiary Guarantors to the Trustee and the holders of the Notes, to the trustee and the holders of each series of the Existing Notes arising under or pursuant to the Note Documents, including any interest, fees and expenses accruing after the initiation of any insolvency proceeding (irrespective of whether such interest, fees and expenses are allowed as a claim in such proceeding).

“November 2020 Notes” means the 7.0% Senior Notes due 2025 of the Company.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions

thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

"Officers' Certificate" means a certificate signed by two Officers; *provided, however*, with respect to the Officers' Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers' Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

"Offshore Non-Guarantor Subsidiaries" has the meaning given to such term under the section entitled "— The Subsidiary Guarantees."

"Offshore Subsidiary" means any Subsidiary of the Company that is incorporated in any jurisdiction other than the PRC.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Pari Passu Guarantee" means a Guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; *provided* that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption "— Limitation on Indebtedness and Preferred Stock" and (2) such Guarantee ranks *pari passu* with the Notes, any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Holders” means any or all of the following:

- (1) Wong Chiu Yeung;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1);
- (3) the estate, trust and any immediate family member of the Persons listed in (1) or the legal representative of any of the foregoing; and
- (4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80.0% or more by one or more Persons specified in clauses (1), (2) and (3).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “— Limitation on Asset Sales;”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens;”
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;

- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) or services by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person), in each case in the ordinary course of business;
- (16) advances to government affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company's balance sheet;
- (17) Guarantees permitted under the covenant under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock;"
- (18) any Investment (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the issuance or sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (each such Person, an "Associate"); *provided* that:
 - (a) the aggregate amount of all Investments made after the Measurement Date under this clause (18), less the aggregate amount of all Receipts received after the Measurement Date in connection with any Investment in any Associate made after the Measurement Date under this clause (18), shall not exceed 30% of Total Assets;
 - (b) no Default has occurred and is continuing or would occur as a result of such Investment;
 - (c) with respect to an Associate in which the Company or any Restricted Subsidiary has made an Investment pursuant to this clause (18), if such Associate has become a Restricted Subsidiary in compliance with the terms of the other covenants, all Investments made by the Company or any Restricted Subsidiary in such Associate since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment" definition to the extent that, with respect to Investments in Capital Stock, such Investments do not exceed the Fair Market Value of such Associate at the time when it becomes a Restricted Subsidiary; and
 - (d) if any of the other holders of Capital Stock of such Associate is a Person described in clauses (x) or (y) of the first paragraph of the covenant described under "— Certain Covenants — Limitation on Transactions with Shareholders

and Affiliates” covenant (other than by reason of such holder being an officer or director of the Company or a Restricted Subsidiary or being the Company or a Subsidiary, Minority Joint Venture or Associate of the Company), such Investment shall comply with the requirements set forth under “— Certain Covenants — Limitation on Transactions with Shareholders and Affiliates” covenant;

- (19) any Investment by the Company or any Restricted Subsidiary in any trust, fund or asset management plan primarily engaged, directly or indirectly, in the investment in any real estate project acquired, developed, managed or operated by the Company or any Restricted Subsidiary; *provided* that if any of the other holders of any interest of such trust, fund or asset management plan is a Person described in clause (x) or (y) of the first paragraph of the covenant described under “— Certain Covenants — Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such holder being a director or officer of the Company or a Restricted Subsidiary or by reason of being a Subsidiary, Minority Joint Venture or Associate of the Company), such Investment shall comply with the requirements set forth under “— Certain Covenants — Limitation on Transactions with Shareholders and Affiliates” covenant;
- (20) any Investment in a subordinated tranche of interests in a Receivable Financing Incurred pursuant to clause (ii) of the definition thereof with multiple tranches offered and sold to investors that, in the good faith determination of the Board of Directors, is necessary or advisable to effect such Receivable Financing;
- (21) any customary indemnity or make-up of difference in payments in connection with any Receivable Financing;
- (22) any Investment deemed to have been made by the Company or any Restricted Subsidiary in any Non-Core Entity of a Qualified Spin-off Group upon the designation of such Non-Core Entity as an Unrestricted Subsidiary.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;”
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock;” *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness;”
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;”
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100.0% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any

property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100.0% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130.0% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) or services by the Company or any of its Restricted Subsidiaries (including without limitation by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, Indebtedness of the type permitted to be Incurred under clause (2)(p) of the covenant described under “— Limitation on Indebtedness and Preferred Stock;”
- (23) Liens incurred to secure Bank Deposit Secured Indebtedness;
- (24) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary or (y) any interest or title of a lessor in the property securing any Capitalized Lease Obligation or any Attributable Indebtedness permitted of the type described under clause (2)(r) of the covenant described under “— Limitation on Indebtedness and Preferred Stock;”
- (25) Liens incurred or deposits made to secure Entrusted Loans;
- (26) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (2)(n) of the covenant described under “— Limitation on Indebtedness and Preferred Stock;”
- (27) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness which is permitted to be Incurred under clause (2)(o) or clause (2)(w) of the covenant described under “— Limitation on Indebtedness and Preferred Stock;”
- (28) Liens securing Indebtedness of Restricted Subsidiaries (other than Subsidiary Guarantors or JV Subsidiary Guarantors) Incurred pursuant to clause (2)(s) of the covenant described under “— Limitation on Indebtedness and Preferred Stock;”

- (29) Liens incurred in the ordinary course of business of the Company or any Restricted Subsidiary of the Company with respect to obligations that do not exceed US\$5.0 million at any one time outstanding;
- (30) Liens securing Indebtedness Incurred under clause 2(v) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock;” and
- (31) Liens securing Indebtedness Incurred under clause 2(y) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock;”

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (11), (13) and (14) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security-Permitted Pari Passu Secured Indebtedness.”

“Permitted Pari Passu Secured Indebtedness Documents” means all agreements evidencing Permitted Pari Passu Secured Indebtedness, and any other document or instrument executed and/or delivered in connection with the transactions contemplated thereby.

“Permitted Pari Passu Secured Obligations” means all present and future obligations, contingent or otherwise, of the Company and the Subsidiary Guarantors to any holder of Permitted Pari Passu Secured Indebtedness, that has (or the agent or representative thereof has) become a party to the Intercreditor Agreement in its capacity as a Secured Party, arising under or pursuant to the Secured Party Documents to which such Permitted Pari Passu Secured Indebtedness, including any interest, fees and expenses accruing after the initiation of any insolvency proceeding (irrespective of whether such interest, fees and expenses are allowed as a claim in such proceeding).

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding Public Indebtedness and any Indebtedness of the Subsidiary Guarantors); *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m), (t) and (u) of the covenant entitled “— Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 25.0% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Perpetual Securities Obligation” means perpetual securities (other than any Capital Stock) that are accounted for as equity in accordance with the relevant generally accepted accounting principles issued by the Company or any Restricted Subsidiary.

“PRC” means the People’s Republic of China, excluding Taiwan, the Hong Kong Special Administrative Region of the PRC and the Macao Special Administrative Region of the PRC.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Qualified Exchange” means either (1) The New York Stock Exchange, the Nasdaq Stock market, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Singapore Exchange Securities Trading Limited, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (2) a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act).

“Qualified IPO” means a listing (or a deemed new listing pursuant to the rules of the relevant stock exchange or governing body) of the Voting Stock of a company on a Qualified Exchange; *provided* that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act), such listing shall result in a public float of no less than the percentage required by the applicable listing rules.

“Qualified Spin-off Group” means, collectively, (i) any Non-Core Entity the Voting Stock of which is, or is expected to be pursuant to a definitive plan, listed on a Qualified Exchange in a Qualified Spin-off IPO, and (ii) the Subsidiaries of such Non-Core Entity.

“Qualified Spin-off IPO” means any Qualified IPO of a Non-Core Entity; *provided* that the Board of Directors of the Company has determined in good faith that the designation of such Non-Core Entity and its Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for such Qualified IPO.

“Rating Agency” means Fitch, *provided* that if Fitch shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for Fitch.

“Rating Category” means (1) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (2) the equivalent of any such category of Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “—” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (*e.g.*, with respect to Fitch, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency) of any of the events listed below, or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, the notification by any of the Rating Agency that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by the Rating Agency on the Rating Date as Investment Grade, the rating of the Notes by the Rating Agency shall be below Investment Grade; or
- (b) in the event the Notes are rated below Investment Grade by the Rating Agency on the Rating Date, the rating of the Notes by the Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Receipt” means, at any time, with respect to an Associate, an amount equal to the net reduction in all Investments made in such Associate under clause (18) of the definition of “Permitted Investment” since the Measurement Date resulting from (A) receipt of payments in cash by the Company or any Restricted Subsidiary in respect of all such Investments, including interest on, or repayments of, loans or advances, dividends or other distributions (except, in each case, to the extent any such payments are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee of any obligation of any Associate provided under such clause (18) after the Measurement Date by the Company or any Restricted Subsidiary, (C) to the extent that an Investment made after the Measurement Date under such clause (18) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the reasonable costs of disposition, if any) and (y) the initial amount of such Investment, or (D) such Associate becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Associate since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment” definition).

“Receivable Financing” means any financing transaction or series of financing transactions that have been or may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to another Person, or may grant a security interest in, any of its receivables, mortgages, royalty, other revenue streams or interests therein (including without limitation, all security interests in goods financed thereby (including equipment and property), the proceeds of such receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization or factoring transactions involving such assets) for credit or liquidity management purposes (including discounting, securitization or factoring transactions) either (i) in the ordinary course of business or (ii) by way of selling by such other Person securities that are, or are capable of being, listed on any stock exchange or in any securities market and are offered using an offering memorandum or similar offering document.

“Receivable Financing Assets” means assets that are underlying and are sold, conveyed or otherwise transferred or pledged in a Receivable Financing.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

“Renminbi” or “RMB” means yuan, the lawful currency of the PRC.

“Replacement Assets” means, on any date, property or assets (other than current assets that are not land use rights, properties under development or completed properties held for sale) of a nature or type or that are used in the businesses of the Company or any Restricted Subsidiary.

“Responsible Officer” when used with respect to the Trustee, means any officer of the Trustee with direct responsibility for the administration of the Indenture.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S & P” means Standard & Poor’s Ratings Services and its affiliates.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Parties” means, collectively, (a) the Trustee on behalf of itself and the holders of the Notes, (b) the trustee, agent or representative of each series of the Existing Pari Passu Secured Indebtedness on behalf of itself and the holders of each series of the Existing Pari Passu Secured Indebtedness and (c) any holder(s) of Permitted Pari Passu Secured Indebtedness (or the agent, trustee or representative of such holder(s) on behalf of itself and such holder(s)) that becomes a party to the Intercreditor Agreement.

“Secured Party Documents” means the Note Documents, the Loan Documents and the Permitted Pari Passu Secured Indebtedness Documents.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Securitization Fees” means distributions or payments made directly or by means of discounts with respect to any Receivable Financing Asset or participation interest therein issued or sold in connection with and other fees paid to a Person that is not a Restricted Subsidiary in connection with any Receivable Financing.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Shared Security Trustee and/or any Holders in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Subsidiary” means a Restricted Subsidiary, when consolidated with its Restricted Subsidiaries, that would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date, if any of the conditions exceeds 5%.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent third party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire 50% or more of the Capital Stock of a Person for

a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time not to exceed 18 months from the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means unsecured Indebtedness Incurred by the Company or any Restricted Subsidiary from but only for so long as such Indebtedness is owed to, any Permitted Holder (other than the Company or any Restricted Subsidiary) as to which (a) the payment of principal of (and premium, if any) and interest and other payment obligations in respect of such Indebtedness is, by its terms or by the terms of any agreement or instrument pursuant to which such Indebtedness is issued or remains outstanding and an agreement (the “Subordination Agreement”) to be entered into among the holders of such Indebtedness (or trustees or agents therefor) and the Trustee, is expressly made subordinate to the prior payment in full of the Notes to at least the following extent: (i) no payments of principal of (or premium, if any) or interest on or otherwise due in respect of such Indebtedness may be permitted for so long as any Default exists; (ii) such Indebtedness may not (x) provide for payments of principal of such Indebtedness at the Stated Maturity thereof or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by the Company or such Subsidiary Guarantor (including any redemption, retirement or repurchase which is contingent upon events or circumstances), in each case prior to the final Stated Maturity of the Notes or (y) permit redemption or other retirement (including pursuant to an offer to purchase made by the Company or any Restricted Subsidiary) of such other Indebtedness at the option of the holder thereof prior to the final Stated Maturity of the Notes, except to the extent such redemption or other retirement is permitted under the covenant described under the caption “— Certain Covenants — Limitation on Restricted Payments” on the date of such redemption or other retirement, (iii) the Subordination Agreement will prevent the holders of such Indebtedness (or trustees or agents therefor) from pursuing remedies against the Company or any of the Restricted Subsidiaries or their respective assets or properties in an insolvency proceeding or in respect of a default under such Indebtedness and (iv) the Subordination Agreement will provide in the event that any payment is received by the holders of such Indebtedness (or any trustee or agent therefor) in respect of such Indebtedness where such payment is prohibited by one or more of the subordination provisions described in this definition, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the Trustee on behalf of the Holders of the Notes, and (b) the terms thereof provide that interest (and premium, if any) thereon is paid solely in the form of (i) pay-in-kind, or PIK, payments constituting additional Subordinated Shareholder Loans or (ii) cash (to the extent provided for when such Subordinated Shareholder Loan was originally Incurred) if such cash interest (or premium, if any) payment would be permitted to be made under the covenant described under the caption “— Certain Covenants — Limitation on Restricted Payments” on the date of such payment.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (a) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (b) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance

with GAAP; *provided, however*, that with respect to clause (b), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” and consolidated by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such entity.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the United Kingdom, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, the United Kingdom or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S & P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S & P or Moody’s;
- (6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any banks or financial institutions organized under the laws of the PRC or Hong Kong or structured deposit products with a term not exceeding six months that are principal protected with any banks or financial institutions organized under the laws of the PRC or Hong Kong.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent full fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that:

- (1) only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness; and
- (2) only with respect to clause (2)(x) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving pro forma effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors (including for the avoidance of doubt, factors or assignees under any accounts receivable financing of such trade creditors) created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means any bank, financial institution, trust company, fund management company, asset management company, financial management company or insurance company, or an Affiliate thereof, that invests in any Capital Stock of a PRC Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of

such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95.0% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands Taxation

Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

There are no other taxes likely to be material to the Company or holders or beneficial owners of the Notes levied by the government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not a party to any double tax treaties that are applicable to any payments made to or by the Company.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

In accordance with Section 6 of the Tax Concession Act (1999 Revision) the Governor in Cabinet undertakes with China SCE Group Holdings Limited (the "Company"):

- (a) that no law which is thereafter enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax is to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Act (1999 Revision).

These concessions shall be for a period of 20 years from December 11, 2007.

British Virgin Islands Taxation

Payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and capital gains derived from the disposal of the Notes will not be subject to British Virgin Islands income or corporation tax, provided that the payments are made to persons who are not resident in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Notes.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Company, the subsidiary Guarantors or the JV Subsidiary Guarantors (if any).

If neither the Company nor any subsidiary Guarantors or the JV Subsidiary Guarantors (if any) holds an interest in real estate in the British Virgin Islands, no stamp duty is payable in respect of the issue of the Notes or on an instrument of transfer in respect of the Notes.

Hong Kong Taxation

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”) as it is currently applied, although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Note is maintained outside Hong Kong, as is expected to be the case).

PRC Taxation

Under the PRC EIT Law and implementation regulations issued by the State Council, if we are treated as a PRC “resident enterprise” (as described under “Risk Factors — Risks relating to conducting operations in the PRC — Certain aspects of the treatment of our companies for PRC enterprise income tax purposes are unclear, and interest on or in respect of the Notes and gain from the disposition of the Notes may be subject to PRC tax”), interest on the Notes may be treated as derived from sources within the PRC, and consequently PRC tax at the rate of 10% may be withheld from interest payments to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected

with the establishment or place of business. Any gain realized on the transfer of the Notes by such investors may be subject to a 10% PRC income tax if we were treated as a PRC resident enterprise and such gain is regarded as income derived from sources within the PRC.

If we were treated as a PRC resident enterprise, and if consequently interest income or gain from the transfer of Notes is regarded as derived from sources within the PRC, the tax and withholding tax rates applicable to non-resident individuals may be up to 20% on gains or interest payments in respect of the Notes.

We currently do not intend to withhold PRC taxes from interest payments. However, as advised by our PRC legal counsel, there is uncertainty as to whether we will be treated as a PRC "resident enterprise" for the purpose of the EIT Law. If we were treated as a PRC "resident enterprise", the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and subject to PRC tax as described above. Any PRC tax liability may be reduced by the terms of an applicable tax treaty.

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (if the documents in respect of the issue and, in the case of a transfer of a Note by an investor, the transfer are not executed within the PRC).

PLAN OF DISTRIBUTION

The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Deutsche Bank AG, Singapore Branch, Guotai Junan Securities (Hong Kong) Limited, The Bank of East Asia, Limited and UBS AG Hong Kong Branch¹ are acting as joint global coordinators, joint lead managers and joint bookrunners and Initial Purchasers of the offering. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally but not jointly agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of Notes
The Hongkong and Shanghai Banking Corporation Limited	US\$82,500,000
Merrill Lynch (Asia Pacific) Limited	US\$52,500,000
Deutsche Bank AG, Singapore Branch	US\$52,500,000
Guotai Junan Securities (Hong Kong) Limited	US\$30,000,000
The Bank of East Asia, Limited	US\$30,000,000
UBS AG Hong Kong Branch ¹	US\$52,500,000
Total	US\$300,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. In addition, we have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Notes by their private bank clients.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum only outside the United States in offshore transactions in reliance on Regulation S. See the section entitled "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled "Transfer Restrictions."

The Notes will constitute a new class of securities with no established trading market. We have received the eligibility letter from the HKSE for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

The Initial Purchasers may engage in stabilization transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Stabilization transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the initial purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilization transaction or a covering transaction to cover short positions. Neither the Company nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition,

¹ UBS AG incorporated in Switzerland with limited liability.

neither the Company nor the Initial Purchasers makes any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fourth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days; purchasers who wish to trade the Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Notes initially will settle in T+4 to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

Certain Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may hold our debt or equity securities from time to time. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up the Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

SELLING RESTRICTIONS

General

No action has been taken or will be taken in any jurisdiction by the Company or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

PRIIPs/Prohibition of Sales to EEA Retail Investors

The Notes may not be offered, sold or otherwise made available 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 point (11) of Article 4(1) of 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.

Consequently no key information document as would be required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

The Notes may not be offered, sold or otherwise made available to any retail investor in the UK. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (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 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.

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.

Each Initial Purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the securities in circumstances in which Section 21(1) of the FSMA does not apply to the Company or the Subsidiary Guarantors; 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 Securities in, from or otherwise involving the United Kingdom.

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in compliance with an available exemption from registration under the Securities Act.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident 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 any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws 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 such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such 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 such 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 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.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") — the Company 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 Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each of the Initial Purchasers has severally represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Company is listed on the Cayman Islands Stock Exchange.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
 - the Notes are being offered and sold only outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf, and you are purchasing the Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

5. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

6. You also acknowledge that this offering memorandum has not been registered as a prospectus with the MAS. Accordingly, you have represented, warranted and agreed that you have 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 have not circulated or distributed, nor will you circulate or distribute, this offering memorandum 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 persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Because of the foregoing restrictions, purchasers are advised to consult their legal counsel prior to making any offer sale, resale, charge or other transfer of the Notes.

RATINGS

We have been assigned a long-term corporate rating of “B+” by Standard & Poor’s Rating Services, a rating of “B1” by Moody’s Investors Service and a rating of “BB-” by Fitch Ratings Ltd. The Notes are expected to be rated “BB-” by Fitch Ratings Ltd. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Maples and Calder (Hong Kong) LLP as to matters of Cayman Islands law and British Virgin Islands law, Sidley Austin as to matters of Hong Kong law, and United States federal and New York law and Jingtian & Gongcheng Attorneys at Law as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and King & Wood Mallesons as to matters of PRC law.

CERTIFIED PUBLIC ACCOUNTANTS

The audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 included or incorporated by reference in this offering memorandum have been audited by Ernst & Young, independent auditors, as stated in their reports appearing herein.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any). The entering into of the Indenture issue of the Notes have been authorized by a resolution of our board of directors dated March 23, 2021. The entering into of the indenture and the giving of the Subsidiary Guarantees have been authorized by resolutions of the board of directors of each Subsidiary Guarantor dated March 23, 2021.

Litigation

We are not aware of any legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

No Material Adverse Change

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since June 30, 2020 that is material in the context of the issue of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

Clearing System and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream with the following International Securities Identification Number.

	<u>ISIN</u>	<u>Common Code</u>
Notes	XS2316077572	231607757

Listing of the Notes

Application will be made to the HKSE for the listing of the Notes by way of debt issues to the Professional Investors only. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the correctness of any statements made on opinions or reports contained in this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. Admission of the Notes to the official list of the HKSE is not to be taken as an indication of the merits of the Notes or us.

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Page references included in the consolidated financial statements for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 set forth below refer to pages in such consolidated financial statements as appeared in our annual reports for the years ended 2018 and 2019 and our interim report for the six months ended June 30, 2020. These annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	4	15,135,207	10,422,829
Cost of sales		(10,910,258)	(7,412,249)
Gross profit		4,224,949	3,010,580
Other income and gains	4	624,719	759,796
Changes in fair value of investment properties, net		462,241	732,250
Selling and marketing expenses		(311,609)	(231,294)
Administrative expenses		(1,029,044)	(628,687)
Other expenses		(156,174)	–
Finance costs	5	(248,720)	(266,873)
Share of profits and losses of:			
Joint ventures		16,964	(117,468)
Associates		(23,490)	(16,668)
PROFIT BEFORE TAX	6	3,559,836	3,241,636
Income tax expense	7	(1,043,197)	(1,047,616)
PROFIT FOR THE PERIOD		2,516,639	2,194,020
OTHER COMPREHENSIVE LOSS:			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of joint ventures		(3,596)	(53)
Share of other comprehensive loss of associates		(10)	–
Exchange differences on translation of foreign operations		(405,665)	(52,073)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(409,271)	(52,126)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD		(409,271)	(52,126)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,107,368	2,141,894

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit attributable to:			
Owners of the parent		2,114,397	1,916,809
Holders of perpetual capital instruments		–	31,850
Non-controlling interests		402,242	245,361
		2,516,639	2,194,020
Total comprehensive income attributable to:			
Owners of the parent		1,751,996	1,866,493
Holders of perpetual capital instruments		–	31,850
Non-controlling interests		355,372	243,551
		2,107,368	2,141,894
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic		RMB50.6 cents	RMB46.5 cents
Diluted		RMB49.6 cents	RMB45.6 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property and equipment	10	808,373	827,422
Investment properties		27,143,443	22,631,743
Intangible asset		3,069	3,153
Properties under development	10	10,879,952	13,248,794
Contract in progress	10	344,968	343,244
Investments in joint ventures		12,330,839	8,863,038
Investments in associates		1,084,091	1,036,532
Prepayments and other assets		1,128,729	4,969,729
Deferred tax assets		704,876	714,805
Total non-current assets		54,428,340	52,638,460
CURRENT ASSETS			
Properties under development	10	54,686,717	49,136,052
Completed properties held for sale		9,508,292	8,021,749
Trade receivables	11	591,646	782,142
Prepayments, other receivables and other assets		11,194,371	8,449,634
Financial assets at fair value through profit or loss		752,467	665,070
Due from related parties		3,726,696	4,379,165
Prepaid income tax		1,711,956	1,411,122
Restricted cash		4,035,775	4,297,558
Pledged deposits		207,966	450,253
Cash and cash equivalents		20,738,069	19,150,849
Total current assets		107,153,955	96,743,594
CURRENT LIABILITIES			
Trade and bills payables	12	17,767,383	14,959,698
Other payables and accruals		16,880,439	12,433,555
Contract liabilities		34,401,611	34,902,065
Interest-bearing bank and other borrowings	13	9,534,808	8,858,490
Senior notes and domestic bonds	14	11,184,977	3,436,692
Due to related parties		9,169,362	7,505,159
Tax payable		3,424,220	2,953,045
Total current liabilities		102,362,800	85,048,704
NET CURRENT ASSETS		4,791,155	11,694,890
TOTAL ASSETS LESS CURRENT LIABILITIES		59,219,495	64,333,350

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		59,219,495	64,333,350
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	13,707,940	12,401,766
Senior notes and domestic bonds	14	11,080,123	17,380,134
Lease liabilities		177,176	186,421
Deferred tax liabilities		4,122,081	4,026,165
Provision for major overhauls		60,526	52,677
Total non-current liabilities		29,147,846	34,047,163
Net assets		30,071,649	30,286,187
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	361,497	361,497
Reserves		18,197,431	17,217,513
		18,558,928	17,579,010
Non-controlling interests		11,512,721	12,707,177
Total equity		30,071,649	30,286,187

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent													
	Share	Statutory	Property	Share	Exchange				Non-					
	Issued	Capital	Merger	option	Hedging	fluctuation	Retained	Total	controlling	Total				
	capital	reserve	reserve	reserve	reserve	reserve	profits	interests	equity					
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020	361,497	1,096,688*	(847,849)*	1,177,608*	30*	82,872*	2,083*	83,562*	(44,811)*	(630,113)*	16,297,443*	17,579,010	12,707,177	30,286,187
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,114,397	2,114,397	402,242	2,516,639
Other comprehensive loss for the period:														
Share of other comprehensive loss of joint ventures	-	-	-	-	-	-	(3,596)	-	-	-	-	(3,596)	-	(3,596)
Share of other comprehensive loss of associates	-	-	-	-	-	-	(10)	-	-	-	-	(10)	-	(10)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(358,795)	-	(358,795)	(46,870)	(405,665)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(3,606)	-	-	(358,795)	2,114,397	1,751,996	355,372	2,107,368
Capital reduction of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(90,400)	(90,400)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	121,717	121,717
Acquisition of non-controlling interests	-	-	(270,071)	-	-	-	-	-	-	-	-	(270,071)	(148,636)	(418,707)
Acquisition of subsidiaries (note 16(a))	-	-	-	-	-	-	-	-	-	-	-	-	94,075	94,075
Disposal of subsidiaries (note 18)	-	-	-	-	-	-	-	-	-	-	-	-	(1,526,584)	(1,526,584)
2019 final dividend approved	-	(523,436)	-	-	-	-	-	-	-	-	-	(523,436)	-	(523,436)
Equity-settled share option arrangements	-	-	-	-	-	-	-	21,429	-	-	-	21,429	-	21,429
At 30 June 2020	361,497	573,252*	(1,117,920)*	1,177,608*	30*	82,872*	(1,523)*	104,991*	(44,811)*	(988,908)*	18,411,840*	18,558,928	11,512,721	30,071,649

* These reserve accounts comprise the consolidated reserves of RMB18,197,431,000 (31 December 2019: RMB17,217,513,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent														Perpetual capital instruments	Non-controlling interests	Total equity
	Issued capital	Share premium account	Capital reserve	Statutory surplus reserve	Merger reserve	Property revaluation reserve	Other reserves	Share option reserve	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
At 1 January 2019	353,077	1,726,337	(266,975)	1,286,932	30	82,872	2,172	14,321	(44,811)	(349,843)	12,678,074	15,482,186	700,000	5,957,221	22,139,407		
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,916,809	1,916,809	31,850	245,361	2,194,020		
Other comprehensive loss for the period:																	
Share of other comprehensive loss of joint ventures	-	-	-	-	-	-	(53)	-	-	-	-	(53)	-	-	(53)		
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(50,263)	-	(50,263)	-	(1,810)	(52,073)		
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(53)	-	-	(50,263)	1,916,809	1,866,493	31,850	243,551	2,141,894		
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	1,157,011	1,157,011		
Dividend paid to a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(140,000)	(140,000)		
Acquisition of non-controlling interests	-	-	(276,380)	-	-	-	-	-	-	-	-	(276,380)	-	(230,220)	(506,600)		
Acquisition of subsidiaries (note 16(b))	-	-	-	-	-	-	-	-	-	-	-	-	-	1,054,868	1,054,868		
Acquisition of a subsidiary that is not a business (note 17)	-	-	-	-	-	-	-	-	-	-	-	-	-	15,750	15,750		
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	(31,850)	-	(31,850)		
Share options exercised	3,389	87,322	-	-	-	-	(7,159)	-	-	-	-	83,552	-	-	83,552		
2018 final dividend approved	-	(507,878)	-	-	-	-	-	-	-	-	-	(507,878)	-	-	(507,878)		
Equity-settled share option arrangements	-	-	-	-	-	-	71,048	-	-	-	-	71,048	-	-	71,048		
At 30 June 2019	356,466	1,305,781	(643,355)	1,286,932	30	82,872	2,119	78,210	(44,811)	(400,106)	14,594,883	16,719,021	700,000	8,058,181	25,477,202		

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations		(1,777,746)	2,163,703
Interest received		83,382	81,724
Interest paid		(1,459,851)	(1,180,455)
PRC corporate income tax paid		(479,988)	(592,232)
PRC land appreciation tax paid		(420,390)	(384,812)
Net cash flows from/(used in) operating activities		(4,054,593)	87,928
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(19,126)	(52,912)
Proceeds from disposal of items of property and equipment		498	142
Additions to investment properties		(258,060)	(925,150)
Proceeds from disposal of investment properties		58,787	–
Prepayment for establishment of joint ventures		–	(103,848)
Acquisition of subsidiaries	16, 17	(15,641)	(914,996)
Disposal of subsidiaries, net	18	(34,818)	–
Investment in joint ventures		(1,594,979)	(828,296)
Proceeds from disposal of a joint venture		–	65,000
Investment in associates		–	(190,000)
Dividend from associates		–	24,075
Loans with joint ventures and associates		595,344	(4,935,184)
Decrease in restricted cash		261,783	419,284
Decrease/(increase) in pledged deposits		242,287	(120,548)
Increase in time deposits with original maturity over three months		(1,607,992)	(871,165)
Other investing cash flows, net		(49,171)	(81,123)
Net cash flows used in investing activities		(2,421,088)	(8,514,721)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes		1,071,615	5,640,528
Issuance costs of senior notes		(14,584)	(65,956)
New bank and other borrowings		10,482,779	8,066,155
Repayment of bank and other borrowings		(6,197,635)	(6,802,254)
Payment of lease liabilities		(24,010)	(29,359)
Acquisition of non-controlling interests		(418,707)	(506,600)
Capital contribution from non-controlling shareholders		121,717	1,157,011
Distribution to holders of perpetual capital instruments		–	(31,850)
Increase in amounts due to related parties, net		1,664,203	3,314,885
Other financing cash flows, net		(264,445)	633,677
Net cash flows from financing activities		6,420,933	11,376,237
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(54,748)	2,949,444
Cash and cash equivalents at beginning of period		19,150,849	15,515,314
Effect of foreign exchange rate changes, net		33,976	2,298
CASH AND CASH EQUIVALENTS AT END OF PERIOD		19,130,077	18,467,056
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents stated in consolidated statement of financial position		20,738,069	19,338,221
Less: Non-pledged time deposits with original maturity of over three months when acquired		(1,607,992)	(871,165)
		19,130,077	18,467,056

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

1. BASIS OF PREPARATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and whose shares are publicly traded on the Hong Kong Stock Exchange. The principal activities of the Group are described in note 3 to the unaudited interim condensed consolidated financial statements.

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Listing Rules.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has fully assessed and adopted, to the extent that is relevant to the Group, the following revised HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Except for Amendments to HKFRS 3 *Definition of a Business* and Amendments to HKAS 1 and HKAS 8 *Definition of Material*, other amendments and interpretations are applied for the first time in 2020, but do not have significant impact on the unaudited interim condensed consolidated financial statements.

The nature and impact of the revised HKFRSs are described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any significant impact on the financial position and performance of the Group.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any significant impact on the Group's unaudited interim condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the businesses of property development, property investment, property management, land development and project management. For management purposes, the property development and property investment businesses are monitored as one operating segment on a project basis to allocate resources and assess performance. For financial reporting purposes, the property management segment, land development segment and project management segment are combined with the property development and investment segment as its reported revenue, reported results and assets are less than 10% of the consolidated revenue, consolidated profit and consolidated assets of the Group.

The Group's revenue from external customers from each product or service is set out in note 4 to the unaudited interim condensed consolidated financial statements.

The Group's revenue from external customers is derived solely from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

During the period, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue from contracts with customers		
Sales of properties	14,686,375	10,066,254
Property management fees	233,061	159,177
Project management income	61,326	64,006
Revenue from other sources		
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	3,562	–
Other lease payments, including fixed payments	150,883	133,392
	15,135,207	10,422,829

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

4. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2020

	Sales of properties (Unaudited) RMB'000	Property management fees (Unaudited) RMB'000	Project management income (Unaudited) RMB'000	Total (Unaudited) RMB'000
Timing of revenue recognition:				
Goods transferred at a point in time	14,686,375	–	–	14,686,375
Services transferred over time	–	233,061	61,326	294,387
Total revenue from contracts with customers	14,686,375	233,061	61,326	14,980,762

For the six months ended 30 June 2019

	Sales of properties (Unaudited) RMB'000	Property management fees (Unaudited) RMB'000	Project management income (Unaudited) RMB'000	Total (Unaudited) RMB'000
Timing of revenue recognition:				
Goods transferred at a point in time	10,066,254	–	–	10,066,254
Services transferred over time	–	159,177	64,006	223,183
Total revenue from contracts with customers	10,066,254	159,177	64,006	10,289,437

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

4. REVENUE, OTHER INCOME AND GAINS *(continued)*

An analysis of the Group's other income and gains is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Other income and gains		
Bank interest income	83,382	81,724
Consultancy service income	90,532	—
Gain on disposal of items of property and equipment, net	99	76
Fair value gain on financial assets at fair value through profit or loss, net	56,511	—
Fair value gain of derivative financial instruments — transactions not qualifying as hedges	—	15,300
Fair value gain on remeasurement of investment in joint ventures	151,560	—
Gain on bargain purchase (note 16)	33,673	563,844
Gain on disposal of a joint venture	—	14,046
Gain on disposal of investment properties	11,157	—
Foreign exchange differences, net	17,102	—
Others	180,703	84,806
	624,719	759,796

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest on bank and other borrowings, senior notes and domestic bonds	1,612,469	1,406,794
Interest on lease liabilities	9,053	9,924
Increase in a discounted amount of provision for major overhauls arising from the passage of time	2,548	2,208
Total interest expense on financial liabilities not at fair value through profit or loss	1,624,070	1,418,926
Less: Interest capitalised	(1,375,350)	(1,152,053)
	248,720	266,873

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Cost of properties sold	10,800,553	7,295,841
Cost of services provided	109,622	116,325
Depreciation of property and equipment	22,018	28,030
Depreciation of right-of-use assets	24,167	30,036
Amortisation of an intangible asset*	83	83
Lease payments not included in the measurement of lease liabilities	4,658	–
Employee benefit expenses (including directors' remuneration):		
Salaries and other staff costs	728,600	389,591
Equity-settled share option expenses	21,429	71,048
Pension scheme contributions	73,929	92,335
Less: Amount capitalised	(196,677)	(174,382)
	627,281	378,592
Foreign exchange differences, net	(17,102)	18,313
Fair value gain of derivative financial instruments — transactions not qualifying as hedges	–	(15,300)
Fair value loss/(gain) of financial assets at fair value through profit or loss, net	(56,511)	18,536
Fair value gain on remeasurement of investment in joint ventures	(151,560)	–
Gain on disposal of investment properties	(11,157)	–
Gain on disposal of items of property and equipment, net	(99)	(76)
Loss on disposal of subsidiaries, net**	156,174	–

* The amortisation of an intangible asset for the period is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** This item is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2019: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current charge for the period:		
PRC corporate income tax	894,972	685,072
PRC land appreciation tax	182,903	188,147
Under-provision in prior years, net:		
Mainland China	29,797	18,176
	1,107,672	891,395
Deferred tax charged/(credited) for the period	(64,475)	156,221
Total tax charge for the period	1,043,197	1,047,616

During the six months ended 30 June 2020, the share of tax charge attributable to joint ventures amounting to RMB2,462,000 (six months ended 30 June 2019: tax charge of RMB33,158,000); and the share of tax credit attributable to associates amounted to RMB43,000 (six months ended 30 June 2019: tax charge of 575,000) are included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

8. DIVIDENDS

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interim — HK11 cents (six months ended 30 June 2019: HK10 cents) per ordinary share	419,414	362,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to owners of the parent, and the weighted average number of ordinary shares of 4,182,133,380 (six months ended 30 June 2019: 4,123,576,711) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to owners of the parent, and the weighted average number of ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Earnings		
Profit attributable to owners of the parent used in the basic and diluted earnings per share calculations	2,114,397	1,916,809
	Number of shares Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	4,182,133,380	4,123,576,711
Effect of dilution — weighted average number of ordinary shares:		
Share options	83,149,916	77,151,142
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	4,265,283,296	4,200,727,853

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

10. ADDITIONS TO PROPERTY AND EQUIPMENT, PROPERTIES UNDER DEVELOPMENT AND CONTRACT IN PROGRESS

During the six months ended 30 June 2020, the Group incurred approximately RMB27,728,000 (six months ended 30 June 2019: RMB52,912,000) on the addition of items of property and equipment.

During the six months ended 30 June 2020, the Group incurred approximately RMB23,643,644,000 (six months ended 30 June 2019: RMB15,159,665,000) and approximately RMB1,724,000 (six months ended 30 June 2019: RMB6,795,000) on the additions to properties under development and contract in progress, respectively.

11. TRADE RECEIVABLES

The Group's trade receivables arise from the sales of properties, leasing of investment properties and provision of property management services.

Consideration in respect of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services. The Group generally grants a rent-free period for three months to the lessees of the Group's investment properties, extending up to six months for major customers.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. All trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date and invoice date, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Current to 90 days	524,502	697,530
91 to 180 days	60,527	76,036
181 to 365 days	19	123
Over 365 days	6,598	8,453
	591,646	782,142

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 1 year	17,531,672	14,702,354
Over 1 year	235,711	257,344
	17,767,383	14,959,698

The trade and bills payables are unsecured and non-interest-bearing and are normally settled based on the progress of construction.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Contractual interest rate (%) per annum	Maturity	RMB'000	Contractual interest rate (%) per annum	Maturity	RMB'000
Current						
Bank loans — secured	3.37–7.13	2020–2021	8,090,911	3.82–8.70	2020	5,808,229
Bank loans — unsecured	3.74	2020	35,556	5.97	2020	34,866
Other loans — secured	5.22–10.90	2020–2021	1,408,341	5.22–10.90	2020	3,015,395
			9,534,808			8,858,490
Non-current						
Bank loans — secured	3.37–7.30	2021–2034	12,320,224	4.40–7.30	2021–2034	9,646,567
Bank loans — unsecured	3.74	2021–2022	320,007	5.97	2021–2022	313,794
Other loans — secured	8.50–10.90	2021–2022	1,067,709	6.43–10.80	2021–2022	2,441,405
			13,707,940			12,401,766
			23,242,748			21,260,256

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

13. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	8,126,467	5,843,095
In the second year	5,125,571	4,768,381
In the third to fifth years, inclusive	6,488,711	4,081,871
Beyond fifth years	1,025,949	1,110,109
	20,766,698	15,803,456
Other borrowings repayable:		
Within one year	1,408,341	3,015,395
In the second year	1,067,709	1,761,405
In the third to fifth years, inclusive	–	680,000
	2,476,050	5,456,800
	23,242,748	21,260,256

Notes:

- (a) Certain of the Group's bank and other borrowings are secured by the Group's bank deposits, property and equipment, investment properties, properties under development and completed properties held for sale, details of which are disclosed in note 21 to the unaudited interim condensed consolidated financial statements.
- (b) As at 30 June 2020, certain of the Group's bank and other borrowings with an aggregate amount of RMB6,304,008,000 (31 December 2019: RMB5,649,205,000) were secured by share charges in respect of the equity interests of certain subsidiaries of the Group.
- (c) Except for certain bank and other borrowings of RMB3,933,984,000 (31 December 2019: RMB3,351,778,000) and RMB1,298,177,000 (31 December 2019: RMB61,710,000) as at 30 June 2020, which were denominated in Hong Kong dollars ("HK\$") and United States dollars ("US\$"), respectively, all of the Group's bank and other borrowings were denominated in RMB.
- (d) At the end of the reporting period, except for certain bank and other borrowings of RMB3,360,620,000 (31 December 2019: RMB5,961,790,000) with fixed interest rates, all of the Group's bank and other borrowings bear interest at floating interest rates.
- (e) As at 30 June 2020, the Group's bank and other borrowings of RMB5,232,161,000 (31 December 2019: RMB3,216,807,000) has a specific performance obligation imposed on the Wong Family and pursuant to which (i) the Wong Family must remain the single largest shareholder in the Company; (ii) the Wong Family must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control the Company; and (iii) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

14. SENIOR NOTES AND DOMESTIC BONDS

	30 June 2020 (Unaudited)				31 December 2019 (Audited)			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2017 Senior Notes	US\$500	5.875	2022	3,512,640	US\$500	5.875	2022	3,438,934
2018 Senior Notes	US\$600	7.45	2021	4,222,756	US\$600	7.45	2021	4,131,251
2019 January Senior Notes	US\$500	8.75	2021	3,521,379	US\$500	8.75	2021	3,443,581
2019 April Senior Notes	US\$500	7.375	2024	3,523,082	US\$350	7.375	2024	2,395,960
2019 July Senior Notes	US\$500	7.25	2023	3,504,401	US\$500	7.25	2023	3,430,408
2015 Domestic Bonds	RMB3,444	7.6	2020	3,440,842	RMB3,444	7.6	2020	3,436,692
2019 Domestic Bonds	RMB540	6.95	2023	540,000	RMB540	6.95	2023	540,000
				22,265,100				20,816,826
Non-current portion				(11,080,123)				(17,380,134)
Current portion				11,184,977				3,436,692

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Repayable:		
Within one year	11,184,977	3,436,692
In the second year	3,512,640	7,574,832
In the third to fifth years, inclusive	7,567,483	9,805,302
	22,265,100	20,816,826

(a) Senior Notes

The Company, at its option, can redeem all or a portion of the 2017 Senior Notes, the 2018 Senior Notes, the 2019 January Senior Notes, the 2019 April Senior Notes and the 2019 July Senior Notes (collectively, the "Senior Notes") at any time prior to the maturity date at the redemption prices (principal amount plus applicable premium) plus accrued and unpaid interest up to the redemption date, as set forth in the written agreements between the Company and the trustees of Senior Notes.

The Senior Notes are secured by pledges over the equity interests of certain subsidiaries of the Company.

The fair values of the early redemption options of Senior Notes were not significant and therefore were not recognised by the Group on inception and at the reporting date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

14. SENIOR NOTES AND DOMESTIC BONDS *(continued)*

(b) Domestic Bonds

In August 2019, Xiamen Zhongjun Industrial Co., Ltd. (“Xiamen Zhongjun”), a wholly-owned subsidiary of the Company issued domestic corporate bonds in the PRC (the “2019 Domestic Bonds”) of 6.95% due 2023 with an aggregate principal amount of RMB540,000,000 at 100% of the face value.

At the end of the second year subsequent to the inception date in August 2019, Xiamen Zhongjun as the issuer is entitled to adjust the interest rate. The holders of 2019 Domestic Bonds may at their options sell back the bonds to Xiamen Zhongjun in whole or in part at their principal amounts at any time prior to the maturity.

The aggregate fair values of the senior notes and domestic bonds as at the end of the reporting period are RMB22,273,666,000 (31 December 2019: RMB21,218,161,000).

The fair values of the senior notes and the domestic bonds are based on price quotations from financial institutions at the reporting date.

15. SHARE CAPITAL

Shares

	30 June 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	1,000,000,000	1,000,000,000
Issued and fully paid:		
4,182,133,380 (31 December 2019: 4,182,133,380) ordinary shares of HK\$0.10 each	418,213,338	418,213,338
Equivalent to RMB'000	361,497	361,497

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

16. BUSINESS COMBINATION

(a) Acquisition of subsidiaries

In June 2020, the Group acquired additional 20% equity interests in Beijing Junle Enterprise Management Consultancy Co., Ltd. (“Beijing Junle”) and its subsidiary (collectively “Beijing Junle Group”), which were previously 50.01%-owned joint ventures. Upon completion of the transaction, the Group held 70.01% of equity interest in Beijing Junle Group. The Group also reached an agreement with a joint venture partner of Beijing Junle Group for the Group to obtain control over the board of Beijing Junle Group. Beijing Junle Group is engaged in property development and property investment in Beijing, the PRC. The purchase consideration for the acquisition was in the form of cash of RMB60,500,000.

The acquisition of Beijing Junle Group was completed in June 2020 and consequently, Beijing Junle Group became subsidiaries of the Group.

As at the date of approval for issuance of these unaudited interim condensed consolidated financial statements, the fair value assessments of identifiable assets and liabilities of the aforementioned acquisition has not been finalised and thus, the assets and liabilities recognised at the date of acquisition have been determined provisionally. Upon finalisation of the valuation, the gain on bargain purchase arising on acquisition may change accordingly. The directors of the Company expect the valuation will be finalised within one year from the date of completion of acquisition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

16. BUSINESS COMBINATION *(continued)*

(a) Acquisition of subsidiaries *(continued)*

The fair values of the identifiable assets and liabilities of the acquisition of subsidiaries as at the date of acquisition (determined on a provisional basis) were as follows:

	Beijing Junle Group (Unaudited) RMB'000
Property and equipment	125
Properties under development	2,315,000
Prepaid income tax	2,589
Other current assets	1,659,012
Cash and cash equivalents	44,859
Trade and bills payables	(6,212)
Contract liabilities	(327,326)
Other current liabilities	(2,225,051)
Interest-bearing bank and other borrowings	(1,000,000)
Deferred tax liabilities	(149,307)
Non-controlling interests	(94,075)
Total identifiable net assets at fair value	219,614
Gain on bargain purchase (note 4)	(33,673)
	185,941
Satisfied by:	
Cash	60,500
Reclassification from pre-existing investments in joint ventures to investments in subsidiaries	125,441
	185,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

16. BUSINESS COMBINATION *(continued)*

(a) Acquisition of subsidiaries *(continued)*

An analysis of the cash flows in respect of the acquisition is as follows:

	(Unaudited) RMB'000
Cash consideration	(60,500)
Cash and cash equivalents acquired	44,859
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	(15,641)

The results of the Beijing Junle Group acquired during the period had no significant impact on the Group's consolidated revenue or profit for the six months ended 30 June 2020.

The gain on bargain purchase is attributable to the market condition at the time of acquisition and the Group's ability in negotiating the agreed terms of the transaction with the vendor.

(b) Information on prior year's acquisition of subsidiaries

On 11 November 2016, the Group entered into agreements in relation to the acquisition of the entire equity interests in Best Century (Worldwide) Limited ("Best Century") and 40% equity interests in Taiwan Commodity Trading Center (Kunshan) Co., Ltd. ("Taiwan Commodity"). Best Century and its subsidiaries and Taiwan Commodity are engaged in property development in the Jiangsu province in the PRC. The net purchase consideration for the acquisition was in the form of cash of RMB1,361,522,000.

On 7 December 2018, the Group entered into an agreement in relation to the acquisition of 51% of the equity interests in Hong Hui Development Company Limited ("Hong Hui"). Hong Hui and its subsidiaries are engaged in property development in Jiangsu province in the PRC. The purchase consideration for the acquisition was in the form of cash of RMB628,728,000.

The acquisitions of Best Century, Taiwan Commodity and Hong Hui were completed in first half of 2019 and consequently, Best Century, Taiwan Commodity and Hong Hui and their respective subsidiaries became non-wholly-owned subsidiaries of the Group.

As at the date of approval for issuance of the Company's 2019 unaudited interim condensed consolidated financial statements, the fair value assessments of identifiable assets and liabilities of the aforementioned acquisitions were not finalised and thus, the assets and liabilities recognised at the date of acquisitions were determined provisionally.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

16. BUSINESS COMBINATION *(continued)*

(b) Information on prior year's acquisition of subsidiaries *(continued)*

The fair values of the identifiable assets and liabilities of the acquisition of subsidiaries as at the date of acquisition (determined on a provisional basis) were as follows:

	(Unaudited) RMB'000
Property and equipment	326
Investment in an associate	18,287
Properties under development	4,300,000
Completed properties held for sale	491,000
Other current assets	88,641
Cash and cash equivalents	1,266
Trade and bills payables	(2,573)
Contract liabilities	(108,636)
Other current liabilities	(331,922)
Tax payable	(6,230)
Deferred tax liabilities	(841,197)
Non-controlling interests	(1,054,868)
Total identifiable net assets at fair value	2,554,094
Gain on bargain purchase (note 4)	(563,844)
	1,990,250
Satisfied by:	
Cash	1,990,250

An analysis of the cash flows in respect of the acquisition is as follows:

	(Unaudited) RMB'000
Cash consideration	(1,990,250)
Cash and cash equivalents acquired	1,266
Outstanding consideration at the end of the reporting period	375,360
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	(1,613,624)

The results of the Best Century, Taiwan Commodity, Hong Hui and their respective subsidiaries acquired during the prior period had no significant impact on the Group's consolidated revenue or profit for the six months ended 30 June 2019.

As at 31 December 2019, the Group finalised the fair value assessments for net assets acquired from the business combination activity. The relevant fair value adjustments were disclosed in the Company's consolidated financial statements for the year ended 31 December 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

17. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS

In March 2020, the Group entered into an agreement in relation to the acquisition of entire equity interest in Xiamen Hui Sheng Cheng Investment Management Consultancy Co., Ltd. (“Xiamen Hui Sheng Cheng”). Xiamen Hui Sheng Cheng is engaged in property investment in Shanghai, the PRC. The purchase consideration for the acquisition was in the form of cash of RMB327,488,000.

Prior to completion of the acquisition, Xiamen Hui Sheng Cheng had not carried on any significant business activities except for holding of investment properties. This acquisition was accounted for by the Group as acquisition of assets, as the operations of Xiamen Hui Sheng Cheng did not constitute a business.

On 10 April 2019, the Group entered into an equity subscription agreement with independent third parties for the acquisition of 65% equity interest in Nantong Xiangrong Property Development Co., Ltd. (“Nantong Xiangrong”) at a cash consideration of RMB29,250,000. The acquisition was completed in April 2019 and consequently Nantong Xiangrong became a non-wholly-owned subsidiary of the Group.

Prior to completion of the acquisition, Nantong Xiangrong had not carried on any significant business activities except for holding of a few parcels of land. This acquisition was accounted for by the Group as acquisition of assets, as the operations of Nantong Xiangrong did not constitute a business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

18. DISPOSAL OF SUBSIDIARIES

Details of the net assets of the subsidiaries disposed during the current period and the financial impacts were as follows:

	Partial disposal of subsidiaries				Disposal of a subsidiary	Total (Unaudited) RMB'000
	Nanjing Junyuan Real Estate Development Co., Ltd. (Unaudited) RMB'000	Beijing Junyu Real Estate Development Co., Ltd. (Unaudited) RMB'000	Chongqing Hongjunrui Real Estate Development Co., Ltd. (Unaudited) RMB'000	Jiangmen Rongchang Real Estate Development Co., Ltd. (Unaudited) RMB'000	Huizhou Junyao Real Estate Development Co., Ltd. (Unaudited) RMB'000	
Net assets disposed of:						
Property and equipment	71	57	69	33	88	318
Properties under development	1,667,728	3,331,007	991,227	704,865	413,683	7,108,510
Completed properties held for sales	–	353,386	–	–	–	353,386
Deferred tax assets	4,917	–	287	383	451	6,038
Trade receivables	–	437,619	–	–	–	437,619
Prepaid income tax	3,852	25,353	–	–	–	29,205
Other current assets	1,252,947	241,721	4,573	644	12,816	1,512,701
Cash and cash equivalents	96,876	168,150	21,919	4,176	26,987	318,108
Trade and bills payables	(8,813)	(784,561)	(25,290)	(900)	(369)	(819,933)
Interest-bearing bank and other borrowings	(786,000)	(2,360,000)	(250,000)	–	–	(3,396,000)
Other current liabilities	(248,494)	(589,277)	(244,384)	(377,957)	(212,753)	(1,672,865)
Tax payable	–	(63,569)	–	–	–	(63,569)
Non-controlling interests	(991,940)	–	(247,257)	(165,615)	(121,772)	(1,526,584)
	991,144	759,886	251,144	165,629	119,131	2,286,934
Gain/(loss) on disposal of subsidiaries (note 6)	(18,255)	(161,660)	748	(1,166)	24,159	(156,174)
Reclassification to investments in joint ventures at fair value at date of disposal	(972,889)	(458,226)	(251,892)	(164,463)	–	(1,847,470)
	–	140,000	–	–	143,290	283,290
Satisfied by:						
Cash	–	140,000	–	–	143,290	283,290

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

18. DISPOSAL OF SUBSIDIARIES *(continued)*

An analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	(Unaudited) RMB'000
Cash and cash equivalents deconsolidated	(318,108)
Cash consideration	283,290
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(34,818)

19. FINANCIAL GUARANTEES

The Group does not hold any collateral or other credit enhancements over the guarantees. The financial guarantee contracts are measured at the higher of the expected credit losses ("ECL") allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor. The amount initially recognised represents the fair value at initial recognition of the financial guarantees.

- (a) At the end of the reporting period, the Group had financial guarantees which are not provided for in these unaudited interim condensed consolidated financial statements as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes)	19,738,165	20,307,223

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

19. FINANCIAL GUARANTEES (continued)

(a) (Continued)

Notes:

- (i) As at 30 June 2020, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

- (ii) The fair value of the guarantees is not significant and the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in these unaudited interim condensed consolidated financial statements for the guarantees.

In addition, the Group's share of the joint ventures and associates' own financial guarantees, which are not included in the above, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures and associates' properties	3,882,555	2,652,313

- (b) At the end of the reporting period, financial guarantees given to banks in connection with loan facilities granted to joint ventures and associates not provided for in these unaudited interim condensed consolidated financial statements are as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Guarantees given to banks in connection with loan facilities granted to joint ventures and associates	14,656,056	7,935,790

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

20. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development and construction of investment properties in Mainland China	22,076,070	18,951,500

In addition, the Group's share of the joint ventures and associates' own capital commitments, which are not included in the above, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures and associates' properties under development and construction of investment properties in Mainland China	4,914,122	3,737,499

21. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure certain bank and other borrowings granted to the Group:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Bank deposits	207,966	450,253
Property and equipment	10,486	10,630
Investment properties	11,551,494	10,260,000
Properties under development	38,006,207	31,504,324
Completed properties held for sale	2,148,505	2,117,351
	51,924,658	44,342,558

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

22. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Property rental income from companies controlled by the Wong Family	(i)	2,441	2,355
Property rental income from associates controlled by the Wong Family	(i)	1,302	–
Property management fees received from companies controlled by the Wong Family	(i)	588	481
Property management fees received from associates controlled by the Wong Family	(i)	2,546	2,312
Property rental expenses paid to associates controlled by the Wong Family	(i)	7,827	5,411
Aircraft leasing expense paid to a company controlled by Mr. Wong	(ii)	2,108	1,890
Project management income received from joint ventures	(iii)	61,326	56,727
Interest income on amounts due from joint ventures	(iv)	1,767	8,994
Consultancy service income received from joint ventures and associates	(v)	204,061	–
Subscription of shares in a company controlled by the Wong Family	(vi)	–	200,000

Notes:

- (i) The transactions were based on terms mutually agreed between the Group and the related parties.
- (ii) The leasing expense was charged at US\$50,000 (six months ended 30 June 2019: US\$50,000) per month.
- (iii) The project management income was charged with reference to the contracted sales amount and certain costs incurred on property development projects.
- (iv) Interest was charged at 5% (six months ended 30 June 2019: 8%) per annum.
- (v) The consultancy service income was charged with reference to the consultancy service agreements entered into between the Group and related companies.
- (vi) On 25 January 2019, the Group subscribed for 25% equity interests in Fun Work Group Holdings Limited ("Fun Work") at a consideration of RMB200,000,000 and Fun Work and its subsidiaries became associates of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

22. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Short term employee benefits	3,400	3,830
Post-employment benefits	50	52
Total compensation paid to key management personnel	3,450	3,882

In the opinion of the directors, the directors of the Company represent the key management personnel of the Group.

Transactions of items (a)(i); (a)(ii) and (a)(vi) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than financial assets at fair value through profit or loss and senior notes and domestic bonds, reasonably approximate to their fair values.

The fair values of the non-current portion of deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2020 were assessed to be insignificant.

The fair values of unlisted equity investments as at 30 June 2020 are based on price quotation from the respective fund manager or estimates based on enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple for similar companies adjusted to reflect the specific circumstances of the investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Asset measured at fair value:

As at 30 June 2020

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active market (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Financial assets at fair value through profit or loss	41,508	–	710,959	752,467

As at 31 December 2019

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active market (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	
Financial assets at fair value through profit or loss	34,668	–	630,402	665,070

During the period, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

24. EVENTS AFTER THE REPORTING PERIOD

In July 2020, Xiamen Zhongjun, a wholly-owned subsidiary of the Company issued domestic corporate bonds of RMB1,460,000,000 at a coupon rate of 5.5% due 2024 ("2020 Domestic Bonds") at a price of 100% of the face value.

At the end of the second year subsequent to the inception date in July 2020, Xiamen Zhongjun as the issuer is entitled to adjust the interest rate and the holders of 2020 Domestic Bonds may at their options sell back the bonds to Xiamen Zhongjun in whole or in part at their principal amounts at any time prior to the maturity.

25. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board of the Company on 19 August 2020.

**To the shareholders of China SCE Group Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China SCE Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 194, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with 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 judgement, 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
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Estimation of fair value of investment properties

The Group has various investment properties in Mainland China. Such investment properties are measured at fair value and the aggregate carrying amount of these investment properties was approximately RMB22.6 billion as at 31 December 2019.

Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period.

The accounting policies and disclosures for the estimation of the fair value of investment properties are included in notes 3, 4 and 15 to the consolidated financial statements.

We evaluated the objectivity, independence and competency of the valuer. We also involved our internal valuation specialists to assist us to assess the methodologies and assumptions adopted in the valuation for estimating the fair value of the investment properties, or compared prices of recent transactions of comparable properties to benchmark the value of the investment properties held by the Group on a sampling basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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.

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.

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Anthony S.T. Leung.

Ernst & Young

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	6	21,369,802	17,782,886
Cost of sales		(15,477,931)	(11,636,290)
Gross profit		5,891,871	6,146,596
Other income and gains	6	1,155,838	386,637
Changes in fair value of investment properties, net	15	1,404,861	1,082,540
Selling and marketing expenses		(516,031)	(398,421)
Administrative expenses		(1,616,310)	(1,298,702)
Other expenses		(92,243)	–
Finance costs	7	(528,142)	(401,686)
Share of profits and losses of:			
Joint ventures		181,599	513,275
Associates		(27,168)	22,217
PROFIT BEFORE TAX	8	5,854,275	6,052,456
Income tax expense	11	(1,830,809)	(2,375,633)
PROFIT FOR THE YEAR		4,023,466	3,676,823
OTHER COMPREHENSIVE INCOME/(LOSS):			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of joint ventures		(97)	(13,837)
Share of other comprehensive income/(loss) of associates		8	(28)
Exchange differences on translation of foreign operations		(307,848)	(486,437)
Release of other reserves upon deemed acquisition of subsidiaries		–	40,539
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(307,937)	(459,763)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		(307,937)	(459,763)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,715,529	3,217,060

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Profit attributable to:			
Owners of the parent		3,510,045	3,385,284
Holders of perpetual capital instruments		35,408	58,363
Non-controlling interests		478,013	233,176
		4,023,466	3,676,823
Total comprehensive income attributable to:			
Owners of the parent		3,229,686	3,019,205
Holders of perpetual capital instruments		35,408	58,363
Non-controlling interests		450,435	139,492
		3,715,529	3,217,060
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	13		
Basic		RMB84.9 cents	RMB87.8 cents
Diluted		RMB83.4 cents	RMB86.0 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	827,422	680,784
Investment properties	15	22,631,743	20,270,300
Prepaid land lease payments	16	–	5,028,066
Intangible asset	18	3,153	3,319
Properties under development	19	13,248,794	2,730,414
Contract in progress	20	343,244	326,907
Investments in joint ventures	21	8,863,038	5,683,818
Investments in associates	22	1,036,532	155,072
Prepayments and other assets	26	4,969,729	3,836,906
Deferred tax assets	34	714,805	561,628
Total non-current assets		52,638,460	39,277,214
CURRENT ASSETS			
Properties under development	19	49,136,052	28,101,140
Completed properties held for sale	24	8,021,749	3,242,502
Trade receivables	25	782,142	401,785
Prepayments, other receivables and other assets	26	8,449,634	4,855,783
Financial assets at fair value through profit or loss	28	665,070	642,440
Due from related parties	27	4,379,165	4,009,493
Prepaid income tax		1,411,122	987,603
Restricted cash	29	4,297,558	4,409,592
Pledged deposits	29	450,253	47,909
Cash and cash equivalents	29	19,150,849	15,515,314
Total current assets		96,743,594	62,213,561
CURRENT LIABILITIES			
Trade and bills payables	30	14,959,698	8,347,133
Other payables and accruals	31	12,433,555	9,929,465
Contract liabilities	31	34,902,065	21,539,926
Interest-bearing bank and other borrowings	32	8,858,490	10,537,381
Derivative financial instruments	23	–	26,739
Senior notes and domestic bonds	33	3,436,692	–
Due to related parties	27	7,505,159	1,246,015
Tax payable		2,953,045	2,599,736
Total current liabilities		85,048,704	54,226,395

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		11,694,890	7,987,166
TOTAL ASSETS LESS CURRENT LIABILITIES		64,333,350	47,264,380
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	12,401,766	9,594,620
Senior notes and domestic bonds	33	17,380,134	13,205,644
Lease liabilities	17	186,421	–
Deferred tax liabilities	34	4,026,165	2,279,297
Provision for major overhauls	35	52,677	45,412
Total non-current liabilities		34,047,163	25,124,973
Net assets		30,286,187	22,139,407
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	361,497	353,077
Reserves	38	17,217,513	15,129,109
		17,579,010	15,482,186
Perpetual capital instruments	39	–	700,000
Non-controlling interests		12,707,177	5,957,221
Total equity		30,286,187	22,139,407

Wong Chiu Yeung
Director

Huang Youquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent											Perpetual capital instruments	Non-controlling interests	Total equity		
	Issued capital	Share premium account	Capital reserve	Statutory surplus reserve	Merger reserve	Property revaluation reserve	Other reserves	Share option reserve	Hedging reserve	Exchange fluctuation reserve	Retained profits				Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 36)		(note 38(b))	(note 38(c))	(note 38(d))			(note 38(e))					(note 39)			
At 1 January 2018 (as previously reported)	329,804	1,760,214	(274,445)	1,114,988	30	82,872	(24,502)	56,798	(44,811)	42,910	9,464,734	12,508,592	700,000	3,400,505	16,609,097	
Profit for the year	-	-	-	-	-	-	-	-	-	-	3,385,284	3,385,284	58,363	233,176	3,676,823	
Other comprehensive income/(loss) for the year:																
Release of other reserves upon deemed acquisition of subsidiaries	-	-	-	-	-	-	40,539	-	-	-	-	40,539	-	-	40,539	
Share of other comprehensive loss of joint ventures	-	-	-	-	-	-	(13,837)	-	-	-	-	(13,837)	-	-	(13,837)	
Share of other comprehensive loss of associates	-	-	-	-	-	-	(28)	-	-	-	-	(28)	-	-	(28)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(392,753)	-	(392,753)	-	(93,684)	(486,437)	
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	26,674	-	-	(392,753)	3,385,284	3,019,205	58,363	139,492	3,217,060	
Capital reduction of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(44,739)	(44,739)	
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	1,545,511	1,545,511	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(505,745)	(505,745)	
Deemed acquisition of subsidiaries (note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	1,338,728	1,338,728	
Acquisition of subsidiaries that are not a business (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	-	83,469	83,469	
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	(58,363)	-	(58,363)	
Deregistration of a subsidiary	-	-	7,470	-	-	-	-	-	-	-	-	7,470	-	-	7,470	
Share options exercised	21,728	559,765	-	-	-	-	-	(60,014)	-	-	-	521,479	-	-	521,479	
Issue of shares for scrip dividend	1,545	46,335	-	-	-	-	-	-	-	-	-	47,880	-	-	47,880	
2017 final dividend	-	(413,984)	-	-	-	-	-	-	-	-	-	(413,984)	-	-	(413,984)	
2018 interim dividend	-	(225,993)	-	-	-	-	-	-	-	-	-	(225,993)	-	-	(225,993)	
Transfer to statutory surplus reserve	-	-	-	171,944	-	-	-	-	-	-	(171,944)	-	-	-	-	
Equity-settled share option arrangements	-	-	-	-	-	-	-	17,537	-	-	-	17,537	-	-	17,537	
At 31 December 2018	353,077	1,726,337*	(266,975)*	1,286,932*	30*	82,872*	2,172*	14,321*	(44,811)*	(349,843)*	12,678,074*	15,482,186	700,000	5,957,221	22,139,407	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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Year ended 31 December 2019

	Attributable to owners of the parent												Perpetual capital instruments	Non-controlling interests	Total equity	
	Issued capital	Share premium	Capital reserve	Statutory surplus reserve	Merger reserve	Property revaluation reserve	Other reserves	Share option reserve	Hedging reserve	Exchange fluctuation reserve	Retained profits	Total				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 36)	(note 38(b))	(note 38(b))	(note 38(c))	(note 38(d))		(note 38(e))					(note 39)				
At 1 January 2019	353,077	1,726,337*	(266,975)*	1,286,932*	30*	82,872*	2,172*	14,321*	(44,811)*	(349,843)*	12,678,074*	15,482,186	700,000	5,957,221	22,139,407	
Profit for the year	-	-	-	-	-	-	-	-	-	-	3,510,045	3,510,045	35,408	478,013	4,023,466	
Other comprehensive income/(loss) for the year:																
Share of other comprehensive loss of joint ventures	-	-	-	-	-	-	(97)	-	-	-	-	(97)	-	-	(97)	
Share of other comprehensive income of associates	-	-	-	-	-	-	8	-	-	-	-	8	-	-	8	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(280,270)	-	(280,270)	-	(27,578)	(307,848)	
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(89)	-	-	(280,270)	3,510,045	3,229,686	35,408	450,435	3,715,529	
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	4,275,386	4,275,386	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(205,000)	(205,000)	
Acquisition of non-controlling interests	-	-	(540,453)	-	-	-	-	-	-	-	-	(540,453)	-	(472,734)	(1,013,187)	
Partial disposal of subsidiaries	-	-	(40,421)	-	-	-	-	-	-	-	-	(40,421)	-	121,288	80,867	
Acquisition of subsidiaries (note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	912,813	912,813	
Deemed acquisition of a subsidiary (note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	1,099,376	1,099,376	
Acquisition of subsidiaries that are not a business (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	-	568,392	568,392	
Redemption of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	(700,000)	-	(700,000)	
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	(35,408)	-	(35,408)	
Share options exercised	8,420	240,999	-	-	-	-	-	(24,535)	-	-	-	224,884	-	224,884		
2018 final dividend	-	(507,878)	-	-	-	-	-	-	-	-	-	(507,878)	-	(507,878)		
2019 interim dividend	-	(362,770)	-	-	-	-	-	-	-	-	-	(362,770)	-	(362,770)		
Transfer to statutory surplus reserve	-	-	-	(109,324)	-	-	-	-	-	-	109,324	-	-	-		
Equity-settled share option arrangements	-	-	-	-	-	-	-	93,776	-	-	-	93,776	-	-	93,776	
At 31 December 2019	361,497	1,096,688*	(847,849)*	1,177,608*	30*	82,872*	2,083*	83,562*	(44,811)*	(630,113)*	16,297,443*	17,579,010	-	12,707,177	30,286,187	

* These reserve accounts comprise the consolidated reserves of RMB17,217,513,000 (31 December 2018: RMB15,129,109,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,854,275	6,052,456
Adjustments for:			
Finance costs	7	528,142	401,686
Share of profits and losses of:			
Joint ventures		(181,599)	(513,275)
Associates		27,168	(22,217)
Interest income		(325,220)	(87,924)
Gain on disposal of items of property and equipment, net	6, 8	(251)	(11,190)
Gain on bargain purchase	6, 41	(564,349)	–
Gain on disposal of subsidiaries, net	6, 43	(17,217)	–
Gain on disposal of a joint venture	6	(14,046)	–
Loss on deemed acquisition of subsidiaries, net	8, 41	–	26,983
Fair value losses/(gains), net:			
Derivative financial instruments — transactions not qualifying as hedges	6, 8	(26,843)	(166,338)
Financial assets at fair value through profit or loss	8	6,088	39,285
Remeasurement of investment in a joint venture	6, 8	(47,023)	–
Remeasurement of investment in an associate	6, 8	–	(21,097)
Premium paid on early redemption of senior notes	8	59,820	–
Loss on disposal of investment properties, net	8	–	11,988
Depreciation of property and equipment	8, 14	47,957	33,065
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	8	47,898	8,281
Changes in fair value of investment properties, net	15	(1,404,861)	(1,082,540)
Amortisation of an intangible asset	8, 18	166	170
Write down to net realisable value of completed properties held for sale	8	39,035	–
Impairment of investment in associates	8	32,423	–
Equity-settled share option expense		93,776	17,537
		4,155,339	4,686,870
Additions to prepaid land lease payments	16	–	(6,422,996)
Increase in properties under development		(34,723,872)	(9,386,066)
Increase in contract in progress	20	(16,337)	(3,882)
Decrease in completed properties held for sale		15,249,000	11,298,108
Increase in trade receivables		(380,357)	(290,767)
Increase in prepayments, other receivables and other assets		(2,966,296)	(3,194,534)
Increase in trade and bills payables		6,696,429	4,229,205
Increase in other payables and accruals		849,362	1,732,560
Increase in contract liabilities		7,705,846	5,206,981
Increase in provision for major overhauls, net	35	4,893	4,800
Cash generated from/(used in) operations		(3,425,993)	7,860,279
Interest received		325,220	87,924
Interest paid		(2,520,268)	(2,013,896)
PRC corporate income tax paid		(798,326)	(880,220)
PRC land appreciation tax paid		(668,953)	(772,475)
Net cash flows from/(used in) operating activities		(7,088,320)	4,281,612

CONSOLIDATED STATEMENT OF CASH FLOWS

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Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(98,844)	(619,186)
Proceeds from disposal of items of property and equipment		5,624	22,206
Additions to investment properties		(1,010,024)	(781,067)
Proceeds from disposal of investment properties		–	177,517
Prepayment for acquisition of an associate		–	(60,000)
Prepayment for establishment of joint ventures		–	(697,371)
Acquisition of subsidiaries	41	(709,425)	–
Acquisition of subsidiaries that are not a business	42	(681,435)	(717,755)
Deemed acquisition of subsidiaries	41	526,937	93,460
Disposal of subsidiaries	43	384,493	–
Partial disposal of subsidiaries		80,867	–
Investment in joint ventures		(1,459,138)	(1,837,968)
Proceeds from disposal of a joint venture		65,000	–
Dividend from joint ventures		5,608	247,938
Investment in associates		(521,778)	(1,600)
Dividend from associates		24,616	540
Loans to joint ventures and associates		(2,815,441)	(1,227,796)
Purchase of financial assets at fair value through profit or loss		(20,149)	(439,532)
Increase in amounts due from related parties		60,031	–
Decrease/(increase) in restricted cash		112,034	(2,800,234)
Increase in pledged deposits		(402,344)	(22,609)
Net cash flows used in investing activities		(6,453,368)	(8,663,457)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes and domestic bonds		9,633,385	3,753,015
Issuance costs of senior notes and domestic bonds		(102,266)	(48,546)
Redemption of senior notes		(2,388,628)	–
Premium paid on early redemption of senior notes	8	(59,820)	–
New bank and other borrowings		16,422,709	16,648,534
Repayment of bank and other borrowings		(14,790,194)	(9,953,961)
Capital contribution from non-controlling shareholders		4,275,386	1,545,511
Capital reduction of subsidiaries		–	(44,739)
Advances from non-controlling shareholders		524,798	1,546,168
Principal portion of lease payments		(42,874)	–
Acquisition of non-controlling interests		(1,013,187)	–
Increase/(decrease) in amounts due to related parties, net		6,259,144	(1,221,088)
Distribution to holders of perpetual capital instruments		(35,408)	(58,363)
Redemption of perpetual capital instruments		(700,000)	–
Proceeds from exercise of share options		224,884	521,479
Dividends paid		(870,648)	(592,097)
Dividends paid to non-controlling shareholders of subsidiaries		(205,000)	(505,745)
Net cash flows from financing activities		17,132,281	11,590,168

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		15,515,314	8,145,483
Effect of foreign exchange rate changes, net		44,942	161,508
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		19,150,849	15,515,314
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	29	19,150,849	15,515,314

NOTES TO FINANCIAL STATEMENTS

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31 December 2019

1. CORPORATE AND GROUP INFORMATION

China SCE Group Holdings Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The addresses of the principal place of business of the Company in the People’s Republic of China (the “PRC”) and Hong Kong are SCE Tower, No. 2, Lane 1688, Shenchang Road, Hongqiao Business District, Shanghai, China; and Room 2801, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong, respectively.

The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in property development, property investment and property management in the PRC during the year.

In the opinion of the directors, the ultimate holding company of the Company is Newup Holdings Limited, which is incorporated in the British Virgin Islands (the “BVI”).

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Affluent Way International Limited ^a	BVI	US\$1	100	–	Investment holding
South China Group (H.K.) Limited ^a	Hong Kong	HK\$100	–	100	Investment holding
Xiamen Zhongjun Industrial Co., Ltd.** (“Xiamen Zhongjun”) (廈門中駿集團有限公司 [†])	China	HK\$1,670,000,000	–	100	Investment holding and trading of construction materials
Shanghai Zhongjun Property Co., Ltd.* (上海中駿置業有限公司 [†])	China	RMB100,000,000	–	100	Investment holding and trading of construction materials
Beijing Zhongjun Commercial Management Co., Ltd.** (北京中駿商業管理有限公司 [†])	China	RMB100,000,000	–	100	Property investment

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NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fujian Zhongjun Industrial Co., Ltd.* (福建中駿置業有限公司*)	China	RMB1,000,000,000	–	100	Investment holding, property development and property investment
Shanxi Yuanhong Real Estate Development Co., Ltd.* (山西源宏房地產開發有限公司*)	China	RMB100,000,000	–	100	Property development
Fujian Straits West-Coast Investment Co., Ltd.* ("West-Coast Investment") (福建省海峽西岸投資有限公司*)	China	RMB10,000,000	–	58	Property development
Quanzhou Puxi Third Property Co., Ltd.*** (泉州市浦西三號置業有限公司*)	China	RMB900,000,000	–	100	Property development and property investment
South Fujian Gold Coast Resort Co., Ltd. Shishi** (石獅市閩南黃金海岸渡假村 有限公司*)	China	RMB400,000,000	–	45	Property development and property investment
Shenzhen Pacific Prestige Real Estate Development Limited** (深圳泛亞房地產開發有限公司*)	China	HK\$160,000,000	–	95	Property development

31 December 2019

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Junyu Real Estate Development Co., Ltd.* (北京駿宇房地產開發有限公司#)	China	RMB400,000,000	–	100	Property development
Tianjin Junkun Real Estate Development Co., Ltd.* (天津駿坤房地產開發有限公司#)	China	RMB300,000,000	–	100	Property development
Nanchang Junda Real Estate Development Co., Ltd.* (南昌駿達房地產開發有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junwo Real Estate Development Co., Ltd.*^ (上海駿沃房地產開發有限公司#)	China	RMB480,000,000	–	100	Property development and property investment
Shanghai Heng Zhi Property Co., Ltd.* (上海衡智房地產有限公司#)	China	RMB100,000,000	–	100	Property development
Shanghai Junbo Real Estate Development Co., Ltd.*^ (上海駿博房地產開發有限公司#)	China	RMB209,000,000	–	100	Property development and property investment
Shanghai Junming Real Estate Development Co., Ltd.*** (上海駿鳴房地產開發有限公司#)	China	RMB1,062,500,000	–	100	Property development and property investment
Nan'an Junhong Real Estate Development Co., Ltd.* (南安駿宏房地產開發有限公司#)	China	RMB150,000,000	–	100	Property development
Jinan Junquan Real Estate Development Co., Ltd.*^ (濟南駿泉房地產開發有限公司#)	China	RMB700,000,000	–	45	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hangzhou Junjin Industrial Development Co., Ltd.* (杭州駿錦實業發展有限公司*)	China	RMB363,787,500	–	96	Property development and property investment
Xuzhou Junjia Real Estate Development Co., Ltd*** (徐州駿嘉房地產開發有限公司*)	China	US\$94,024,000	–	96	Property development
Shanghai Zhongjun Chuangfu Real Estate Co., Ltd.*** ("Shanghai Zhongjun Chuangfu") (上海中駿創富房地產有限公司*)	China	RMB1,800,000,000	–	61	Property development and property investment
Shangqiu Zhongyu Property Co., Ltd.* (商丘市中裕置業有限公司*)	China	RMB200,000,000	–	40	Property development
Suzhou Junyuan Real Estate Development Co. Ltd.* (蘇州駿源房地產開發有限公司*)	China	RMB21,085,900	–	95	Property development
Nanjing Junyuan Real Estate Development Co., Ltd.* ("Nanjing Junyuan") (南京駿原房地產開發有限公司*)	China	RMB1,999,200,000	–	50	Property development
Chongqing Junhuigongchuang Real Estate Development Co., Ltd.* (重慶駿匯共創房地產開發有限公司*)	China	RMB360,000,000	–	47	Property development

31 December 2019

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Songming Zhongjiguoye Real Estate Development Co., Ltd.* ("Songming Zhongji") (嵩明中稷國樺房地產開發有限公司#)	China	RMB150,000,000	–	70	Property development
Qingdao Zhong Yutai Property Co., Ltd.*^ (青島眾裕泰置業有限公司#)	China	RMB52,241,100	–	96	Property development
Xiamen Junyou Real Estate Development Co., Ltd.*** ("Xiamen Junyou") (廈門駿佑房地產開發有限公司#)	China	RMB2,000,000,000	–	46	Property development
Tianjin Junyang Real Estate Development Co., Ltd.* (天津駿揚房地產開發有限公司#)	China	RMB693,518,350	–	95	Property development
Tianjin Bijun Real Estate Development Co., Ltd.* (天津碧軍房地產開發有限公司#)	China	RMB30,000,000	–	48	Property development
Suzhou Junda Real Estate Development Co., Ltd.* (蘇州駿達房地產開發有限公司#)	China	RMB1,247,387,740	–	91	Property development
Xuzhou Junxing Real Estate Development Co., Ltd.* (徐州駿興房地產開發有限公司#)	China	RMB1,437,000,000	–	46	Property development
Shangrao Junmao Real Estate Development Co., Ltd.* (上饒市駿茂房地產開發有限公司#)	China	RMB30,000,000	–	96	Property development
Chongqing Sanchengyihui Enterprise Co., Ltd.* ("Chongqing Sanchengyihui") (重慶三城益匯實業有限公司#)	China	RMB1,000,000,000	–	50	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

- * Registered as limited liability companies under the PRC law
- ** Registered as wholly-foreign-owned entities under the PRC law
- *** Registered as Sino-foreign joint ventures under the PRC law
- # The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as no official English names have been registered.
- ^ At 31 December 2019, the equity interests of these companies were pledged to secure certain bank and other borrowings of RMB5,649,205,000 (2018: RMB7,668,159,000) granted to the Group (note 32(b)).
- ° As at 31 December 2019, the equity interests of these companies were pledged under share mortgage to the holders of the senior notes of US\$500,000,000 at a coupon rate of 5.875% due 2022 issued in March 2017 and April 2017 (the "2017 Senior Notes"); the senior notes of US\$600,000,000 at a coupon rate of 7.45% due 2021 issued in April 2018 (the "2018 Senior Notes"); the senior notes of US\$500,000,000 at a coupon rate of 8.75% due 2021 issued in January 2019 (the "2019 January Senior Notes"); the senior notes of US\$350,000,000 at a coupon rate of 7.375% due 2024 issued in April 2019 (the "2019 April Senior Notes"); and the senior notes of US\$500,000,000 at a coupon rate of 7.25% due 2023 issued in July 2019 (the "2019 July Senior Notes") (note 33).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

31 December 2019

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has fully assessed and adopted, to the extent that is relevant to the Group, the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, other amendments and interpretations are applied for the first time in 2019, but do not have significant financial impact on these financial statements.

The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretation.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for leasehold lands and properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for an elective exemption for leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The current portion of lease liabilities were included in other payables and accruals whereas the non-current portion of lease liabilities were separately disclosed in the consolidated statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date and included in property and equipment and properties under development in the consolidated statement of financial position, as appropriate.

For the leasehold land and building (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40. For leases previously accounted for as operating leases and entered into for earning sublease rental income, the related right-of-use assets of the head leases amounting to RMB28,760,000 were measured at fair value at 1 January 2019, and have been accounted for and classified as investment properties applying HKAS 40 from that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 is as follows:

	Increase/ (decrease) RMB'000
<hr/>	
Non-current assets	
Property and equipment	49,885
Investment properties	28,760
Prepaid land lease payments	(5,028,066)
Prepayments, other receivables and other assets	(8,955)
Properties under development	5,037,021
<hr/>	
Total non-current assets	78,645
<hr/>	
Current liabilities	
Other payable and accruals	18,657
<hr/>	
Non-current liabilities	
Lease liabilities	59,988
<hr/>	
Total liabilities	78,645

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	62,599
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(14,156)
Add: Present value of lease payment in optional extension periods not recognised as at 31 December 2018	41,667
	90,110
Weighted average incremental borrowing rate as at 1 January 2019	8%
Lease liabilities as at 1 January 2019	78,645

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's financial statements.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. The interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, financial assets at fair value through profit or loss and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, contract in progress, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either 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 the key management personnel of the entity (or of a parent of the entity); and
 - (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 parent of the Group.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land under finance leases	Over the lease terms
Buildings	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	19% to 25%
Transportation equipment	10% to 25%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Changes in the values of revalued property and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation *(Continued)*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	Over the remaining term of the lease
Buildings	two to 20 years

If ownership of the leased asset transfers to the Group by the end of the lease term of the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

When the right-of-use assets relate to interests in leasehold land held as properties under development, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for properties under development.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

When the right-of-use assets relate to interests in leasehold land held as completed properties held for sale, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for completed properties held for sale.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangement

The Group has entered into a service concession arrangement with a government body in Quanzhou, the PRC, for the operation and management of certain sports and recreation facilities. The transactions related to such service concession arrangement are accounted for by the Group as follows:

Consideration paid by the Group

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public services. The intangible asset (operating concession) is accounted for in accordance with the policy set out for “Intangible asset (other than goodwill)” below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for “Revenue recognition” below.

Contractual obligations to restore the sports and recreation facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence. The obligations are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with the policy set out for “Provisions” below.

Intangible asset (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of an intangible asset recognised in profit or loss in the period is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible asset (other than goodwill) *(Continued)*

Operating concession

Operating concession represents the right to operate certain sports and recreation facilities and is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Group of 30 years.

Investment properties

Investment properties include both completed investment properties and investment properties under construction.

Completed investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" 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 accounted for as a revaluation in accordance with the policy stated under "Property and equipment and depreciation" above.

When the right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "Investment properties".

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and lease of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonable certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's current portion of lease liabilities were included in other payables and accruals whereas the non-current portion of lease liabilities were separately disclosed in the consolidated statement of financial position.

(b) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Lease in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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 by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial assets at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all 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 enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, amounts due to related parties, interest-bearing bank and other borrowings and senior notes and domestic bonds.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or 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 recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other borrowings and domestic bonds are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement *(Continued)*

Senior notes

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital instruments

Perpetual capital instruments with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required 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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised 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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with 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 amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer 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.

(a) *Sales of properties*

Revenue from the sale of properties is recognised at the point in time when the purchasers obtained 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.

(b) *Rendering of service*

Revenue from provision of management service is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) *Land development*

Revenue from land development is recognised at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from other sources

Rental income and facilities rental income is recognised on a time proportion basis over the lease terms.

Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to a customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfer the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfer control of the related goods or services to the customer).

Contract cost

Other than the costs which are capitalised as properties under development and property and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract cost *(Continued)*

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Land development contract

The Group has entered into a land development contract (the "Land Development Contract") with the local government of Nan'an City (the "Nan'an Government"), the PRC, to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities on certain land parcels in Nan'an City.

Pursuant to the Supplemental Contract (as defined in note 20), upon completion of the necessary construction and preparation works of each land parcel, the Nan'an Government will pay the Group the construction and other related cost plus a margin. Such amount will be paid by the Nan'an Government upon the related land parcels to be sold by the Nan'an Government through public auction.

Revenue from the Land Development Contract is recognised at a point in time when the Nan'an Government obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable and the amount of revenue can be measured reliably, which occurs upon the completion of related construction and preparation works as well as the sales of the relevant land parcel. The timing of sales of each land parcel by the Nan'an Government is uncertain and out of the control of the Group.

Costs incurred by the Group in connection with the Land Development Contract comprise the aggregate costs of construction, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of development and other costs directly attributable to such Land Development Contract and are classified as "Contract in progress" before the relevant land parcels are sold.

Contract in progress is stated at the lower of cost and net realisable value. Net realisable value takes into account the Group's revenue derived from the construction and preparation work carry out less costs to completion and the costs to be incurred in realising the revenue based on prevailing market conditions.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-Settled Transactions").

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

The cost of Equity-Settled Transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries 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. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the “Pension Scheme”) operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders.

Proposed final dividends are disclosed in the notes to the financial statements.

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollars ("HK\$") while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries, joint ventures and associates operating outside the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

Valuation of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Allocation of construction cost on properties under development

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

Whether the presumption that investment properties stated at fair value are recovered through sale is rebutted in determining deferred tax

The Group has investment properties located in the PRC which are measured at fair value. Investment property is property held to earn rentals or for capital appreciation or both. In considering whether the presumption in HKAS 12 *Income Taxes* that an investment property measured at fair value will be recovered through sale is rebutted in determining deferred tax, the Group has developed certain criteria in making that judgement, such as whether an investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time or through sale. The presumption is rebutted only in the circumstance that there is sufficient evidence such as historical transaction, future development plan and management's intention to demonstrate that the investment property is held with the objective to consume substantially all of the economic benefits over time, rather than through sale. Continuous assessments on the presumption will be made by management at each reporting date.

Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls certain entities, even though it owns less than 50% of the voting rights of these entities, because the Group is entitled to appoint a majority of directors in the board of directors and accordingly, the Group is able to control and direct the financing and operating activities of these entities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction, were revalued at each reporting date during the year based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, 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 each reporting date.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the businesses of property development, property investment, property management, land development and project management. For management purposes, the property development and property investment businesses are monitored as one operating segment on a project basis to allocate resources and assess performance. For financial reporting purposes, the property management segment, land development segment and project management segment are combined with the property development and investment segment as its reported revenue, reported results and assets are less than 10% of the consolidated revenue, consolidated profit and consolidated assets of the Group.

The Group's revenue from external customers from each product or service is set out in note 6 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

During the years ended 31 December 2019 and 31 December 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sales of properties	20,452,820	17,224,700
Property management fees	458,066	336,678
Project management income	174,313	90,546
Revenue from other sources		
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	17,269	–
Other lease payments, including fixed payments	267,334	130,962
	21,369,802	17,782,886

31 December 2019

6. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers

(i) **Disaggregated revenue information**

For the year ended 31 December 2019

	Sales of properties RMB'000	Property management fees RMB'000	Project management income RMB'000	Total RMB'000
Timing of revenue recognition:				
Goods transferred at a point in time	20,452,820	–	–	20,452,820
Services transferred over time	–	458,066	174,313	632,379
Total revenue from contracts with customers	20,452,820	458,066	174,313	21,085,199

For the year ended 31 December 2018

	Sales of properties RMB'000	Property management fees RMB'000	Project management income RMB'000	Total RMB'000
Timing of revenue recognition:				
Goods transferred at a point in time	17,224,700	–	–	17,224,700
Services transferred over time	–	336,678	90,546	427,224
Total revenue from contracts with customers	17,224,700	336,678	90,546	17,651,924

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of properties	17,024,268	12,384,485

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers *(Continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of properties

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Property management fees and Project management income

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Management service contracts are for periods of one year or less, and are billed based on the time incurred.

The amount of unsatisfied performance obligation principally comprises the balance of contract liabilities, which are expected to be recognised in one to three years as of 31 December 2019 and 31 December 2018.

31 December 2019

6. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers *(Continued)*

Notes	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	206,298	87,924
Interest income on amounts due from joint ventures	118,922	–
Forfeiture income on deposits received	15,522	6,668
Gain on disposal of items of property and equipment, net	251	11,190
Fair value gain of derivative financial instruments		
— transactions not qualifying as hedges	26,843	166,338
Fair value gain on remeasurement of investment in a joint venture	47,023	–
Fair value gain on remeasurement of investment in an associate	–	21,097
Gain on bargain purchase	564,349	–
Gain on disposal of subsidiaries, net	17,217	–
Gain on disposal of a joint venture	14,046	–
Others	145,367	93,420
	1,155,838	386,637

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings, senior notes and domestic bonds	2,920,220	2,133,590
Interest on lease liabilities (note 17(b))	19,774	–
Increase in a discounted amount of provision for major overhauls arising from the passage of time (note 35)	2,372	2,044
Total interest expense on financial liabilities not at fair value through profit or loss	2,942,366	2,135,634
Less: Interest capitalised	(2,414,224)	(1,733,948)
	528,142	401,686

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of properties sold		15,249,000	11,298,108
Cost of services provided		228,765	338,012
Depreciation of property and equipment	14	47,957	33,065
Depreciation of right-of-use assets (2018: Amortisation of land lease payments)	16,17(b)	47,898	8,281
Amortisation of an intangible asset*	18	166	170
Provision for major overhauls	35	5,465	5,228
Minimum lease payments under operating leases for land and buildings		–	37,040
Lease payments not included in the measurement of lease liabilities	17(b)	4,412	–
Direct operating expenses (including repairs and maintenance) arising from rental-generating investment properties		615	434
Auditor's remuneration		4,870	4,250
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and other staff costs		1,090,625	897,123
Equity-settled share option expense		93,776	17,537
Pension scheme contributions		195,395	143,173
Less: Amount capitalised		(287,885)	(429,402)
		1,091,911	628,431
Premium paid on early redemption of senior notes**		59,820	–
Foreign exchange differences, net		16,450	78,141
Fair value gain of derivative financial instruments — transactions not qualifying as hedges		(26,843)	(166,338)
Fair value loss of financial assets at fair value through profit or loss, net		6,088	39,285
Fair value gain on remeasurement of investment in a joint venture		(47,023)	–
Fair value gain on remeasurement of investment in an associate		–	(21,097)
Gain on bargain purchase	41	(564,349)	–
Loss on deemed acquisition of subsidiaries, net	41	–	26,983
Gain on disposal of subsidiaries, net	43	(17,217)	–
Gain on disposal of a joint venture		(14,046)	–
Write down to net realisable value of completed properties held for sale		39,035	–
Impairment of investment in associates**		32,423	–
Loss on disposal of investment properties, net		–	11,988
Gain on disposal of items of property and equipment, net		(251)	(11,190)

* The amortisation of an intangible asset for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** These items were included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

31 December 2019

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	888	852
Other emoluments:		
Salaries, allowances and benefits in kind	6,899	6,656
Discretionary performance related bonuses	8,177	7,829
Equity-settled share option expense	28,258	3,297
Pension scheme contributions	108	99
	43,442	17,881
	44,330	18,733

NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	296	-	-	-	-	296
Mr. Lu Hong Te	296	-	-	-	-	296
Mr. Dai Yiyi	296	-	-	-	-	296
	888	-	-	-	-	888

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	284	-	-	-	-	284
Mr. Lu Hong Te	284	-	-	-	-	284
Mr. Dai Yiyi	284	-	-	-	-	284
	852	-	-	-	-	852

31 December 2019

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019						
Executive directors:						
Mr. Wong Chiu Yeung ("Mr. Wong")	–	1,641	2,461	–	16	4,118
Mr. Chen Yuanlai	–	1,334	1,556	10,092	16	12,998
Mr. Cheng Hiu Lok	–	1,334	1,556	10,092	16	12,998
Mr. Huang Youquan	–	1,320	1,334	8,074	44	10,772
Mr. Wong Lun	–	1,270	1,270	–	16	2,556
	–	6,899	8,177	28,258	108	43,442

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018						
Executive directors:						
Mr. Wong	–	1,571	2,356	–	15	3,942
Mr. Chen Yuanlai	–	1,277	1,490	773	15	3,555
Mr. Cheng Hiu Lok	–	1,277	1,490	773	15	3,555
Mr. Huang Youquan	–	1,315	1,277	1,751	39	4,382
Mr. Wong Lun	–	1,216	1,216	–	15	2,447
	–	6,656	7,829	3,297	99	17,881

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2018: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2018: three) non-director, highest paid individual for the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	3,247	4,816
Discretionary performance related bonuses	1,200	1,800
Equity-settled share option expense	14,366	5,077
Pension scheme contributions	156	143
	18,969	11,836

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	–	2
HK\$10,500,001 to HK\$11,000,000	2	–
	2	3

11. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil).

	2019 RMB'000	2018 RMB'000
Current charge for the year:		
PRC corporate income tax ("CIT")	1,215,624	1,294,115
PRC land appreciation tax ("LAT")	387,840	981,564
Under/(over)-provision in prior years, net:		
Mainland China	(6,970)	61,056
	1,596,494	2,336,735
Deferred (note 34)	234,315	38,898
Total tax charge for the year	1,830,809	2,375,633

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11. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	5,854,275	6,052,456
At the statutory/applicable rates of different jurisdictions	1,557,132	1,674,725
Lower tax rates for specific cities	(48,649)	(60,149)
Adjustments in respect of current tax of previous periods	(6,970)	61,056
Profits and losses attributable to joint ventures and associates	(38,608)	(133,873)
Income not subject to tax	(137,491)	(21,890)
Expenses not deductible for tax	265,045	192,339
Tax effect on unrealised profits arising from transactions within the Group	(50,530)	(72,748)
LAT	387,840	981,564
Tax effect of LAT deductible for PRC CIT	(96,960)	(245,391)
Tax charge at the Group's effective rate	1,830,809	2,375,633

The share of tax charge for the year ended 31 December 2019 attributable to joint ventures amounted to RMB255,520,000 (2018: RMB213,670,000). The share of tax charge for the year ended 31 December 2019 attributable to associates amounted to RMB1,726,000 (2018: RMB9,606,000). Both are included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

12. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim — HK10 cents (2018: HK7 cents) per ordinary share	362,770	225,993
Proposed final — HK14 cents (2018: HK14 cents) per ordinary share	523,436	507,878
	886,206	733,871

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 4,134,224,457 (2018: 3,855,128,016) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to owners of the parent used in the basic and diluted earnings per share calculations	3,510,045	3,385,284
Number of shares		
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	4,134,224,457	3,855,128,016
Effect of dilution — weighted average number of ordinary shares:		
Share options	73,602,653	81,613,520
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	4,207,827,110	3,936,741,536

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14. PROPERTY AND EQUIPMENT

	Property and equipment				Right-of-use assets				Total RMB'000
	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Subtotal RMB'000	Leasehold land RMB'000	Buildings RMB'000	Subtotal RMB'000	
31 December 2019									
At 1 January 2019 (restated):									
Cost	346,787	65,584	106,803	104,456	623,630	250,459	49,885	300,344	923,974
Accumulated depreciation	(10,515)	(42,337)	(47,617)	(90,331)	(190,800)	(2,505)	-	(2,505)	(193,305)
Net carrying value	336,272	23,247	59,186	14,125	432,830	247,954	49,885	297,839	730,669
At 31 December 2018,									
net of accumulated depreciation	584,226	23,247	59,186	14,125	680,784	-	-	-	680,784
Effect of adoption of HKFRS 16	(247,954)	-	-	-	(247,954)	247,954	49,885	297,839	49,885
At 1 January 2019 (restated)									
At 1 January 2019 (restated)	336,272	23,247	59,186	14,125	432,830	247,954	49,885	297,839	730,669
Additions	12,572	6,828	66,578	12,866	98,844	-	98,338	98,338	197,182
Acquisition of subsidiaries (note 41)	-	-	293	32	325	-	-	-	325
Deemed acquisition of a subsidiary (note 41)	-	-	474	-	474	-	-	-	474
Acquisition of subsidiaries that are not a business (note 42)	-	-	7	-	7	-	-	-	7
Depreciation	(5,861)	(9,354)	(25,352)	(7,390)	(47,957)	(5,009)	(42,889)	(47,898)	(95,855)
Disposals	-	(462)	(4,884)	(27)	(5,373)	-	-	-	(5,373)
Disposal of subsidiaries (note 43)	-	-	(7)	-	(7)	-	-	-	(7)
At 31 December 2019,									
net of accumulated depreciation	342,983	20,259	96,295	19,606	479,143	242,945	105,334	348,279	827,422
At 31 December 2019:									
Cost	359,359	55,111	164,081	115,642	694,193	250,459	148,223	398,682	1,092,875
Accumulated depreciation	(16,376)	(34,852)	(67,786)	(96,036)	(215,050)	(7,514)	(42,889)	(50,403)	(265,453)
Net carrying value	342,983	20,259	96,295	19,606	479,143	242,945	105,334	348,279	827,422

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14. PROPERTY AND EQUIPMENT (Continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018:					
Cost	49,656	51,407	67,927	100,383	269,373
Accumulated depreciation	(8,428)	(36,148)	(32,928)	(86,975)	(164,479)
Net carrying value	41,228	15,259	34,999	13,408	104,894
At 1 January 2018, net of accumulated depreciation	41,228	15,259	34,999	13,408	104,894
Additions	558,982	15,394	42,260	2,550	619,186
Deemed acquisition of subsidiaries (note 41)	–	–	607	173	780
Acquisition of subsidiaries that are not a business (note 42)	–	–	5	–	5
Depreciation	(6,908)	(6,189)	(18,024)	(1,944)	(33,065)
Disposals	(9,076)	(1,217)	(661)	(62)	(11,016)
At 31 December 2018, net of accumulated depreciation	584,226	23,247	59,186	14,125	680,784
At 31 December 2018:					
Cost	597,246	65,584	106,803	104,456	874,089
Accumulated depreciation	(13,020)	(42,337)	(47,617)	(90,331)	(193,305)
Net carrying value	584,226	23,247	59,186	14,125	680,784

At 31 December 2019, certain of the Group's buildings with an aggregate carrying amount of RMB10,630,000 (2018: RMB19,938,000) were pledged to banks to secure certain bank and other borrowings granted to the Group (note 46).

The Group has lease contracts of land and building used in its operations. Lump sum payments were made upfront to acquire the leased land from the PRC Government with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office buildings generally have lease terms between two and 20 years.

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15. INVESTMENT PROPERTIES

	Completed	Under construction	Total
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January 2018	7,347,318	2,904,400	10,251,718
Additions	138,714	642,353	781,067
Disposals	(189,505)	–	(189,505)
Transfer from properties under development	–	2,004,480	2,004,480
Transfer	2,906,321	(2,906,321)	–
Deemed acquisition of subsidiaries (note 41)	6,340,000	–	6,340,000
Net gain from a fair value adjustment	976,152	106,388	1,082,540
Carrying amount at 31 December 2018	17,519,000	2,751,300	20,270,300
Effect of adoption of HKFRS 16	28,760	–	28,760
Carrying amount at 1 January 2019 (restated)	17,547,760	2,751,300	20,299,060
Additions	394,597	728,110	1,122,707
Transfer from properties under development	–	1,461,389	1,461,389
Transfer from completed properties held for sale	64,726	–	64,726
Transfer	2,144,465	(2,144,465)	–
Disposal of subsidiaries (note 43)	–	(1,721,000)	(1,721,000)
Net gain from a fair value adjustment	798,795	606,066	1,404,861
Carrying amount at 31 December 2019	20,950,343	1,681,400	22,631,743

All of the Group's investment properties are situated in Mainland China.

The Group's investment properties were revalued on 31 December 2019 based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, at RMB22,631,743,000 (2018: RMB20,270,300,000).

At 31 December 2019, the Group's investment properties with an aggregate carrying amount of RMB10,260,000,000 (2018: RMB16,148,278,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

The Group's completed investment properties are leased to third parties and companies controlled by Mr. Wong and his family members (together with Mr. Wong, the "Wong Family") under operating leases, further summary details of which are included in note 17.

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15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

For the years ended 31 December 2019 and 31 December 2018, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

In the opinion of the directors, for all investment properties that are measured at fair value, the properties have been used in their highest and best use.

The following table illustrates the fair value measurement of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2019 RMB'000	2018 RMB'000
Recurring fair value measurement for:		
Office and commercial properties	21,554,462	19,595,917
Car parking spaces	1,077,281	674,383
	22,631,743	20,270,300

During the year, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3.

31 December 2019

15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation techniques		Significant unobservable inputs	Range (weighted average)	
			2019	2018
Office and commercial properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	35 to 616	52 to 638
		Capitalisation rate	1.5% to 6.5%	4.5% to 6%
		Price per square metre (RMB)	8,000 to 104,000	8,500 to 93,500
Car parking spaces	Investment method and direct comparison method (refer below)	Estimated rental value per car parking space and per month (RMB)	650 to 1,600	650 to 1,500
		Capitalisation rate	3.5% to 5%	3.5% to 5%
		Price per car parking space (RMB)	100,000 to 500,000	100,000 to 453,000

The valuations of completed investment properties and investment properties under construction were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties or the direct comparison method by reference to comparable market transactions.

Significant increases (decreases) in estimated rental value per square metre or per car parking space or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. Significant increases (decreases) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the estimated rental value per square metre and the price per square metre is accompanied by a directionally similar change in the development profit and an opposite change in the capitalisation rate.

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16. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000
Carrying amount at 1 January	5,427,646
Additions	6,422,996
Acquisition of subsidiaries that are not a business (note 42)	1,034,767
Transfer to properties under development	(9,289,086)
Transfer from prepayments and deposits	1,448,979
Recognised during the year (note 8)	(8,281)
Carrying amount at 31 December	5,037,021
Current portion included in prepayments, other receivables and other assets	(8,955)
Non-current portion	5,028,066

At 31 December 2018, certain of the Group's leasehold land with an aggregate carrying amount of RMB2,400,597,000 were pledged to secure certain bank and other borrowings granted to the Group (note 46).

17. LEASES

The Group as a lessee

The Group has lease contracts for properties used in operations. Leases of properties generally have lease terms between two to 20 years.

(a) Lease liabilities

The carrying amount of lease liabilities (included under other payables and accruals) and the movement during the year are as follows:

	Lease liabilities RMB'000
Carrying amount as at 1 January 2019	78,645
New leases	211,021
Accretion of interest recognised during the year	19,774
Payments	(62,648)
At 31 December 2019	246,792
Analysed into:	
Current portion	60,371
Non-current portion	186,421

The maturity analysis of lease liabilities is disclosed in note 51 to the financial statements.

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17. LEASES (Continued)

The Group as a lessee (Continued)

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	Notes	2019 RMB'000
Interest on lease liabilities	7	19,774
Depreciation charge of right-of-use assets	8	47,898
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	8	4,412
Total amount recognised in profit or loss		72,084

(c) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 44(c) and 47, respectively, to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 15) consisting of various office properties, commercial properties and car parking spaces in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB284,603,000 (2018: RMB130,962,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	76,733	31,424
After one year but within two years	–	1,115
After five years	–	362
	76,733	32,901

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18. INTANGIBLE ASSET

Operating concession

	2019	2018
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	3,319	3,489
Amortisation provided during the year (note 8)	(166)	(170)
At 31 December	3,153	3,319
At 31 December:		
Cost	4,861	4,861
Accumulated amortisation	(1,708)	(1,542)
Net carrying amount	3,153	3,319

On 28 March 2006, Quanzhou Straits Sports Centre Co., Ltd. ("Straits Sports Centre"), a subsidiary of the Group, entered into an operating right concession agreement (the "Operating Right Agreement") with the Quanzhou Sports Bureau (the "Sports Bureau"), a local government body in Quanzhou, the PRC, at a cash consideration of RMB5,000,000. Pursuant to the Operating Right Agreement, Straits Sports Centre is granted with an operating concession (the "Operating Concession") to operate and manage certain sports and recreation facilities (the "Facilities") in Quanzhou for a period of 30 years (the "Operating Period").

This service concession arrangement involves the Group as operator (i) paying a specified amount as consideration to obtain the Operating Concession of the Facilities; (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the Sports Bureau for the Operating Period; and (iii) receiving a right to charge users using the Facilities. The Group is entitled to operate and manage the Facilities, and is entitled to all the income associated with the operation of the Facilities. However, the relevant government bodies as grantors will control and regulate the scope of services provided and the prices charged by the Group during the Operating Period, retain ownership, and be entitled to any residual interest in the Facilities at the end of the Operating Period.

The cost of the Operating Concession is being amortised over the Operating Period.

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19. PROPERTIES UNDER DEVELOPMENT

	2019 RMB'000	2018 RMB'000
Properties under development expected to be completed:		
Within normal operating cycle included under current assets	49,136,052	28,101,140
Beyond normal operating cycle included under non-current assets	13,248,794	2,730,414
	62,384,846	30,831,554
Properties under development expected to be completed within normal operating cycle and recovered:		
Within one year	26,514,105	13,944,927
After one year	22,621,947	14,156,213
	49,136,052	28,101,140

At 31 December 2019, certain of the Group's properties under development, including the relevant land use rights, with an aggregate carrying amount of RMB31,504,324,000 (2018: RMB18,029,459,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

Lump sum payments were made upfront to acquire the leased land from the PRC Government with lease periods of 40 to 70 years, and no ongoing payments will be made under the terms of these land leases.

20. CONTRACT IN PROGRESS

	2019 RMB'000	2018 RMB'000
At 1 January	326,907	340,667
Additions	16,337	3,882
Transfer to properties under development	–	(17,642)
At 31 December	343,244	326,907

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20. CONTRACT IN PROGRESS *(Continued)*

On 18 August 2009, the Group entered into the Land Development Contract with the Nan'an Government to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City. Pursuant to the Land Development Contract, although the Group does not have the ownership title or land use right to such land parcels, when the land parcels are sold by the Nan'an Government through public auction, the Group is entitled to the sales proceeds arising from such land sales.

Contract in progress represents costs incurred by the Group in connection with the construction and preparation work of the relevant land parcels under the Land Development Contract and comprises relocation and demolition work, costs of construction, materials and supplies, capitalised borrowing costs on related borrowed funds during the period of development and other costs directly attributable to the Land Development Contract.

On 22 February 2016, the Group entered into a supplemental Land Development Contract (the "Supplemental Contract") with the Nan'an Government, pursuant to which certain terms and conditions of the Land Development Contract were revised. In accordance with the Supplemental Contract, the Group continues to carry out the construction and preparation work in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City. Nan'an Government will pay the Group the construction and other related costs plus a margin. Such amount will be determined and paid by the Nan'an Government upon the related land parcels to be sold by the Nan'an Government through public auction.

21. INVESTMENTS IN JOINT VENTURES

	2019	2018
	RMB'000	RMB'000
Share of net assets	4,042,985	2,872,986
Due from joint ventures	4,831,966	2,822,745
Due to joint ventures	(11,913)	(11,913)
	8,863,038	5,683,818

The amounts due from/(to) joint ventures are unsecured, interest-free and repayable on demand. In accordance with the terms of the joint venture agreements, all joint venture partners are required to provide loan capital to the joint ventures in proportion to their shareholdings under equal terms. Repayment of any amount of the loan capital requires unanimous approval from the joint venture partners subject to the sufficiency of assets and retained profits of the joint ventures. Accordingly, the loan capital forms an integral part of the Group's equity investments in the joint ventures.

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21. INVESTMENTS IN JOINT VENTURES *(Continued)*

Particulars of the Group's material joint ventures are as follows:

Name	Particulars of issued and paid-up capital	Place of incorporation/ registration and business	Percentage of beneficial interest attributable to the Group	Principal activities
Tianjin Meijiang Qiushi Property Co., Ltd.* ("Tianjin Meijiang") (天津梅江秋實置業有限公司*)	RMB200,000,000	China	25	Property development
Foshan Hongsheng Property Development Co., Ltd.* ("Foshan Hongsheng") (佛山泓升置業發展有限公司*)	RMB900,000,000	China	49	Property development
Sure Source International Limited ("Sure Source")	US\$118,018,100	BVI	50	Investment holding
Cangluan (Xiamen) Real Estate Co., Ltd.* ("Xiamen Cangluan") (滄鑾(廈門)置業有限公司*)	RMB1,455,000,000	China	24	Property development

* Registered as limited liability companies under the PRC law

The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as no official English names are registered.

The above investments are held indirectly by subsidiaries of the Company.

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21. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

The following tables illustrate the summarised financial information in respect of Tianjin Meijiang, Foshan Hongsheng, Sure Source and its subsidiaries (collectively, "Sure Source Group"), Xiamen Cangluan, Wuxi Meishangjun Property Development Co., Ltd. ("Wuxi Meishangjun") and Nanjing Junyi Property Development Co., Ltd. ("Nanjing Junyi") adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

(a) Summarised financial information in respect of Tianjin Meijiang, Foshan Hongsheng, Sure Source Group and Xiamen Cangluan

	2019			
	Tianjin Meijiang RMB'000	Foshan Hongsheng RMB'000	Sure Source Group RMB'000	Xiamen Cangluan RMB'000
Cash and cash equivalents	11,715	204,695	85,548	285,925
Other current assets	1,863,047	18,567,134	270,535	3,286,767
Current assets	1,874,762	18,771,829	356,083	3,572,692
Non-current assets	30,109	174	1,292,000	36,082
Other current liabilities	(849,313)	(16,241,744)	(123,878)	(1,240,820)
Current liabilities	(849,313)	(16,241,744)	(123,878)	(1,240,820)
Non-current liabilities	–	(1,309,788)	(463,920)	(920,000)
Net assets	1,055,558	1,220,471	1,060,285	1,447,954
Reconciliation to the Group's directly held interest in the joint venture:				
Proportion of the Group's ownership	25%	49%	50%	24%
Share of net assets	263,890	598,031	530,143	353,301
Carrying amount of the investment	263,890	598,031	530,143	353,301
Revenue	2,521,019	499,468	–	–
Bank interest income	914	1,179	19	1,467
Depreciation	–	(85)	–	–
Tax credit/(expense)	(647,259)	(1,691)	(82,289)	3,514
Profit for the year	707,655	154,454	222,004	73,374
Other comprehensive loss	–	–	(2,258)	–

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21. INVESTMENTS IN JOINT VENTURES (Continued)

Notes: (Continued)

(b) Summarised financial information in respect of Wuxi Meishangjun, Xiamen Cangluan and Nanjing Junyi

	Wuxi Meishangjun RMB'000	2018 Xiamen Cangluan RMB'000	Nanjing Junyi RMB'000
Cash and cash equivalents	5,632	19,336	30,312
Other current assets	2,267,439	3,192,424	2,338,691
Current assets	2,273,071	3,211,760	2,369,003
Non-current assets	611	14	2,804
Other current liabilities	(1,075,621)	(1,837,194)	(1,882,240)
Current liabilities	(1,075,621)	(1,837,194)	(1,882,240)
Net assets	1,198,061	1,374,580	489,567
Reconciliation to the Group's directly held interest in the joint venture:			
Proportion of the Group's ownership	32%	24%	49%
Share of net assets	386,375	335,398	238,566
Due from joint ventures	203,976	246,270	259,280
Carrying amount of the investment	590,351	581,668	497,846
Bank interest income	32	–	47
Depreciation	–	–	(227)
Tax credit	581	–	1,771
Loss and total comprehensive loss for the year	(1,939)	(80,420)	(8,132)

In the opinion of the directors, Wuxi Meishangjun and Nanjing Junyi are no longer considered as material joint ventures of the Group for the year ended 31 December 2019, and therefore, the summarised financial information of Wuxi Meishangjun and Nanjing Junyi for the year ended 31 December 2019 are not presented in the financial statements.

(c) 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
Share of the joint ventures' profit/(loss) for the year, net	(199,902)	537,485
Share of the joint ventures' other comprehensive income/(loss)	1,032	(13,837)
Share of the joint ventures' total comprehensive income/(loss)	(198,870)	523,648
Aggregate carrying amount of the Group's investments in the joint ventures	7,117,673	4,013,953

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22. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	604,100	66,734
Due from associates	464,855	88,338
Provision for impairment	(32,423)	–
	1,036,532	155,072

The amounts due from associates are unsecured, interest-free and repayable on demand. In accordance with the terms of the shareholder agreements, all shareholders of the associates are required to provide loan capital to the associates in proportion to their shareholdings under equal terms. Repayment of any amount of the loan capital requires unanimous approval from the shareholders subject to the sufficiency of assets and retained profits of the associates. Accordingly, the loan capital forms an integral part of the Group's equity investments in the associates.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' income/(loss) for the year	(27,168)	22,217
Share of the associates' other comprehensive income/(loss)	8	(28)
Share of the associates' total comprehensive income/(loss)	(27,160)	22,189
Aggregate carrying amount of the Group's investments in the associates	1,036,532	155,072

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23. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Capped forward cross currency swap contracts classified as:		
Current liabilities	–	26,739

The Group entered into various capped forward cross currency swap contracts with a bank to manage its exchange rate exposures.

These capped forward cross currency swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB26,843,000 were credited to profit or loss during the year (2018: RMB166,338,000).

24. COMPLETED PROPERTIES HELD FOR SALE

All the completed properties held for sale are stated at the lower of cost and net realisable value.

At 31 December 2019, certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB2,117,351,000 (2018: RMB304,098,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

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25. TRADE RECEIVABLES

The Group's trade receivables arise from the sales of properties, leasing of investment properties and provision of property management services.

Consideration in respect of the sales of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services. The Group generally grants a rent-free period of three months to the lessees of the Group's investment properties, extending up to six months for major customers.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. All trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date and invoice date, is as follows:

	2019	2018
	RMB'000	RMB'000
Current to 90 days	697,530	393,387
91 to 180 days	76,036	287
181 to 365 days	123	9
Over 365 days	8,453	8,102
	782,142	401,785

The financial impact of ECLs for trade receivables is insignificant for the years ended 31 December 2019 and 31 December 2018.

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26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	RMB'000	RMB'000
Prepayments (note (a))	6,988,361	5,267,019
Deposits	1,385,303	559,556
Other receivables	4,724,285	2,656,170
Cost of obtaining contracts	321,414	209,944
	13,419,363	8,692,689
Non-current portion	(4,969,729)	(3,836,906)
Current portion	8,449,634	4,855,783

Note:

- (a) The balances included prepayments for the acquisition of land use rights in Mainland China amounting to RMB4,914,247,000 as at 31 December 2019 (2018: RMB2,235,333,000).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 31 December 2018, the loss allowance was assessed to be minimal.

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27. BALANCES WITH RELATED PARTIES

An analysis of the balances with related parties is as follows:

	2019	2018
	RMB'000	RMB'000
Due from related parties:		
Companies controlled by the Wong Family	–	60,031
Joint ventures	3,923,055	3,882,612
Associates	456,110	66,850
	4,379,165	4,009,493
Due to related parties:		
Companies controlled by the Wong Family	5,052	1,334
Joint ventures	7,430,402	1,198,759
Associates	69,705	45,922
	7,505,159	1,246,015

Except for the amounts due from related parties of RMB1,221,419,000 (2018: Nil) which are non-trade in nature, unsecured, borne interest ranging from 7.6% to 10.0% per annum and repayable on demand, other balances are non-trade in nature, unsecured, interest-free and repayable on demand.

None of the amounts due from related parties is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. As at 31 December 2019 and 31 December 2018, the loss allowance was assessed to be minimal.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	RMB'000
Listed equity investments, at fair value	34,668	65,053
Other unlisted investments, at fair value	630,402	577,387
	665,070	642,440

The above equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

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29. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	23,898,660	19,972,815
Less: Restricted cash (notes)	(4,297,558)	(4,409,592)
Pledged deposits (note (e))	(450,253)	(47,909)
Cash and cash equivalents	19,150,849	15,515,314

Notes:

- (a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales 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 for the relevant property projects. As at 31 December 2019, such guarantee deposits amounted to RMB1,002,610,000 (2018: RMB2,214,106,000).
- (b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. These guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2019, such deposits amounted to RMB820,468,000 (2018: RMB528,296,000).
- (c) Pursuant to a management agreement entered into between the Sports Bureau and Straits Sports Centre, the funds advanced by the Sports Bureau that are deposited in a designated bank account can only be used for payments of construction costs and expenditures incurred for the construction of the Facilities. As at 31 December 2019, such advance amounted to RMB6,000,000 (2018: RMB6,000,000).
- (d) In addition to the restrictions as detailed in notes (a), (b) and (c) above, certain subsidiaries of the Group are also required to place certain of their bank deposit amounts as guarantee deposits for public maintenance funds, or there are restrictions as to the use of certain unutilised bank loan proceeds and proceeds from the perpetual capital instruments (note 39) deposited in the subsidiaries' bank accounts. As at 31 December 2019, the aggregate amount of such deposits amounted to RMB2,468,480,000 (2018: RMB1,661,190,000).
- (e) The bank deposits were pledged to secure general banking facilities and bills payable granted to the Group (note 46).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB20,974,502,000 (2018: RMB16,880,927,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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30. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	14,702,354	8,208,575
Over 1 year	257,344	138,558
	14,959,698	8,347,133

The trade and bills payables are unsecured and non-interest-bearing and are normally settled based on the progress of construction.

31. OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(a)	34,902,065	21,539,926
Deposits received		488,802	362,829
Accruals		553,802	391,923
Advances from non-controlling shareholders	(b)	4,035,500	3,510,702
Proceeds from securitisation arrangement	(c)	2,263,084	1,052,870
Other payables	(d)	5,031,996	4,611,141
Lease liabilities	17(a)	246,792	–
		47,522,041	31,469,391
Non-current portion – lease liabilities		(186,421)	–
Current portion		47,335,620	31,469,391
Represented by:			
Contract liabilities		34,902,065	21,539,926
Current portion of other payables and accruals		12,433,555	9,929,465
		47,335,620	31,469,391

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31. OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

Notes:

- (a) Contract liabilities include advances received from buyers in connection with the Group's pre-sales of properties. The net increase in contract liabilities was mainly due to the increase in advances received from customers in relation to the sales of properties at the end of the year, offset by the decrease in advances received from customers upon recognition of revenue in the current year when the purchasers obtained the physical possession or the legal title of the relevant properties.
- (b) Advances from non-controlling shareholders are unsecured, interest-free and repayable on demand.
- (c) The balance represented proceeds received from a financial institution in the PRC, to which the Group has transferred the right of receipt of the remaining sale proceeds of certain properties to be delivered by the Group. Under an assignment arrangement between the Group and the financial institution, as and when the Group receives the sale proceeds from customers, the Group would remit any cash flows it collects on behalf of the financial institution.
- (d) Other payables are non-interest-bearing and are expected to be settled within one year.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Contractual interest rate (%) per annum	Maturity	RMB'000	Contractual interest rate (%) per annum	Maturity	RMB'000
Current						
Bank loans — secured	3.82–8.70	2020	5,808,229	2.85–8.70	2019	8,466,376
Bank loans — unsecured	5.97	2020	34,866	4.02	2019	238,347
Other loans — secured	5.22–10.90	2020	3,015,395	5.70–8.75	2019	1,832,658
			<u>8,858,490</u>			<u>10,537,381</u>
Non-current						
Bank loans — secured	4.40–7.30	2021–2034	9,646,567	4.52–7.84	2020–2033	6,819,304
Bank loans — unsecured	5.97	2022	313,794	–	–	–
Other loans — secured	6.43–10.80	2021–2022	2,441,405	6.43–8.75	2020–2021	2,775,316
			<u>12,401,766</u>			<u>9,594,620</u>
			<u>21,260,256</u>			<u>20,132,001</u>

NOTES TO FINANCIAL STATEMENTS

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	2019	2018
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	5,843,095	8,704,723
In the second year	4,768,381	2,327,463
In the third to fifth years, inclusive	4,081,871	4,233,089
Beyond fifth years	1,110,109	258,752
	15,803,456	15,524,027
Other borrowings repayable:		
Within one year	3,015,395	1,832,658
In the second year	1,761,405	650,000
In the third to fifth years, inclusive	680,000	2,125,316
	5,456,800	4,607,974
	21,260,256	20,132,001

Notes:

- (a) Certain of the Group's bank and other borrowings are secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale, details of which are disclosed in note 46 to the financial statements.
- (b) As at 31 December 2019, certain of the Group's bank and other borrowings with an aggregate amount of RMB5,649,205,000 (2018: RMB7,668,159,000) were secured by share charges in respect of the equity interests of certain subsidiaries of the Group, details of which are set out in note 1 to the financial statements.
- (c) Except for certain bank and other borrowings of RMB3,351,778,000 (2018: RMB2,737,042,000) and RMB61,710,000 (2018: RMB2,334,776,000) as at 31 December 2019 which were denominated in HK\$ and United States dollars ("US\$"), respectively, all of the Group's bank and other borrowings were denominated in RMB.
- (d) At the end of the reporting period, except for certain bank and other borrowings of RMB5,961,790,000 (2018: RMB5,915,320,000) with fixed interest rates, all of the Group's bank and other borrowings bear interest at floating interest rates.
- (e) As at 31 December 2019, the Group's bank and other borrowings of RMB3,216,807,000 (2018: RMB4,833,471,000) were secured by a specific performance obligation imposed on the Wong Family and pursuant to which (i) the Wong Family must remain the single largest shareholder in the Company; (ii) the Wong Family must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control the Company; and (iii) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company.

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33. SENIOR NOTES AND DOMESTIC BONDS

	2019				2018			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2015 Senior Notes	-	-	-	-	US\$350	10.00	2020	2,363,010
2017 Senior Notes	US\$500	5.875	2022	3,438,934	US\$500	5.875	2022	3,370,234
2018 Senior Notes	US\$600	7.45	2021	4,131,251	US\$600	7.45	2021	4,043,674
2019 January Senior Notes	US\$500	8.75	2021	3,443,581	-	-	-	-
2019 April Senior Notes	US\$350	7.375	2024	2,395,960	-	-	-	-
2019 July Senior Notes	US\$500	7.25	2023	3,430,408	-	-	-	-
2015 Domestic Bonds	RMB3,444	7.6	2020	3,436,692	RMB3,444	7.6	2020	3,428,726
2019 Domestic Bonds	RMB540	6.95	2023	540,000	-	-	-	-
				20,816,826				13,205,644
Non-current portion				(17,380,134)				(13,205,644)
Current portion				3,436,692				-
						2019		2018
						RMB'000		RMB'000
Repayable:								
Within one year						3,436,692		-
In the second year						7,574,832		5,791,736
In the third to fifth years, inclusive						9,805,302		7,413,908
						20,816,826		13,205,644

(a) Senior Notes

The Company, at its option, can redeem all or a portion of the 2015 Senior Notes, the 2017 Senior Notes, the 2018 Senior Notes, the 2019 January Senior Notes, the 2019 April Senior Notes and the 2019 July Senior Notes (collectively, the "Senior Notes") at any time prior to the maturity date at the redemption prices (principal amount plus applicable premium) plus accrued and unpaid interest up to the redemption date, as set forth in the written agreements between the Company and the trustees of the Senior Notes.

The Senior Notes are secured by pledges over the equity interests of certain subsidiaries of the Company (note 1).

In January 2019, the Group issued senior notes at coupon rate of 8.75% due 2021 with aggregate principal amount of US\$500,000,000. The Group raised net proceeds of US\$494,754,000 (after deduction of underwriting discount and commissions and other expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

33. SENIOR NOTES AND DOMESTIC BONDS *(Continued)*

(a) Senior Notes *(Continued)*

In April 2019, the Group issued senior notes at coupon rate of 7.375% due 2024 with aggregate principal amount of US\$350,000,000. The Group raised net proceeds of US\$345,310,000 (after deduction of underwriting discount and commissions and other expenses).

In July 2019, the Group issued senior notes at coupon rate of 7.25% due 2023 with aggregate principal amount of US\$500,000,000 at a price of 99.954% of the principal amount. The Group raised net proceeds of US\$494,996,000 (after deduction of underwriting discount and commissions and other expenses).

On 9 August 2019, the Company redeemed in full the outstanding 2015 Senior Notes before maturity at a redemption price of 102.5% of the principal amount of the outstanding 2015 Senior Notes plus accrued and unpaid interest.

The fair values of the early redemption options of the Senior Notes were not significant and therefore were not recognised by the Group on inception and at 31 December 2019.

(b) Domestic Bonds

In August 2019, Xiamen Zhongjun, a wholly-owned subsidiary of the Company issued domestic corporate bonds in the PRC (the "2019 Domestic Bonds") of 6.95% due 2023 with an aggregate principal amount of RMB540,000,000 at 100% of the face value.

At the end of the second year subsequent to the inception date in August 2021, Xiamen Zhongjun as the issuer is entitled to adjust the interest rate. The holders of 2019 Domestic Bonds may at their options to sell back the bonds to Xiamen Zhongjun in whole or in part at their principal amounts at any time prior to the maturity.

The aggregate fair values of the senior notes and domestic bonds as at the end of the reporting period are RMB21,218,161,000 (2018: RMB13,046,001,000).

The fair values of the senior notes and the domestic bonds are based on price quotations from financial institutions at the reporting date.

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34. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Notes	Revaluation of properties RMB'000
At 1 January 2018		1,286,606
Charged to profit or loss during the year		189,567
Deemed acquisition of subsidiaries	41	828,657
At 31 December 2018 and 1 January 2019		2,304,830
Charged to profit or loss during the year		365,253
Acquisition of subsidiaries	41	1,354,574
Deemed acquisition of a subsidiary	41	50,262
Disposal of subsidiaries	43	(26,654)
At 31 December 2019		4,048,265

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34. DEFERRED TAX (Continued)

Deferred tax assets

	Notes	Unrealised profits arising from intra-group transactions RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2018 (as previously reported)		29,045	169,150	189,859	388,054
Deemed acquisition of subsidiaries	41	–	–	48,438	48,438
Credited to profit or loss during the year		18,111	123,792	8,766	150,669
At 31 December 2018 and 1 January 2019		47,156	292,942	247,063	587,161
Acquisition of subsidiaries	41	–	–	1,512	1,512
Deemed acquisition of a subsidiary	41	–	–	17,272	17,272
Acquisition of subsidiaries that are not a business	42	–	–	22	22
Credited to profit or loss during the year		12,403	20,874	97,661	130,938
At 31 December 2019		59,559	313,816	363,530	736,905

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	714,805	561,628
Net deferred tax liabilities recognised in the consolidated statement of financial position	4,026,165	2,279,297

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34. DEFERRED TAX *(Continued)*

At 31 December 2019, the Group has tax losses arising in Mainland China of RMB1,473,167,000 (2018: RMB1,007,299,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of certain of these losses of RMB19,048,000 (2018: RMB19,048,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became 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 Mainland China 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.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB15,141,144,000 at 31 December 2019 (2018: RMB9,761,569,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. PROVISION FOR MAJOR OVERHAULS

As detailed in note 18 to these financial statements, the Group has contractual obligations to fulfil as a condition of the Operating Concession under the Operating Right Agreement. The obligations are (a) to maintain the Facilities it operates to a specified level of serviceability and (b) to restore the Facilities to a specified condition before they are handed over to the Sports Bureau at the end of the Operating Concession. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

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35. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for major overhauls of the Facilities for the year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	45,412	38,568
Additional provisions (note 8)	5,465	5,228
Increase in a discounted amount arising from the passage of time (note 7)	2,372	2,044
Amount utilised during the year	(572)	(428)
At 31 December	52,677	45,412

36. SHARE CAPITAL

Shares

	2019 HK\$	2018 HK\$
Authorised: 10,000,000,000 ordinary shares of HK\$0.10 each	1,000,000,000	1,000,000,000
Issued and fully paid: 4,182,133,380 (2018: 4,087,583,380) ordinary shares of HK\$0.10 each	418,213,338	408,758,338
Equivalent to RMB'000	361,497	353,077

31 December 2019

36. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of movement in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK\$
At 1 January 2018		3,823,840,000	382,384,000
Share options exercised	(a)	245,450,000	24,545,000
Issue of shares for scrip dividend	(b)	18,293,380	1,829,338
At 31 December 2018 and 1 January 2019		4,087,583,380	408,758,338
Share options exercised	(c)	94,550,000	9,455,000
At 31 December 2019		4,182,133,380	418,213,338

Notes:

- (a) Subscription rights attaching to 245,450,000 share options were exercised at the subscription price of HK\$2.4 per share (note 37), resulting in the issue of 245,450,000 shares for a total cash consideration, before expenses, of approximately HK\$589,080,000. An amount of approximately RMB60,014,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (b) During the year ended 31 December 2018, 18,293,380 ordinary shares of HK\$0.10 each in the Company were issued at HK\$3.10 per shares as scrip dividend.
- (c) Subscription rights attaching to 38,550,000 and 56,000,000 share options were exercised at the subscription price of HK\$2.4 per share and HK\$2.78 per share, respectively (note 37), resulting in the issue of 94,550,000 shares for a total cash consideration, before expenses, of approximately HK\$248,200,000. An amount of approximately RMB24,535,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme are included in note 37 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

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37. SHARE OPTION SCHEME

Pursuant to the two option schemes adopted by the Company on 6 January 2010 (the "2010 Scheme") and on 23 April 2018 (the "2018 Scheme") (collectively, the "Scheme"), respectively, the directors may, at its absolute discretion, invite any participant to take up options to subscribe for shares of the Company. A total of 285,320,000 shares is available for issue under the 2010 Scheme, which represented 10% of the aggregate of the shares in issue on the date the shares of the Company commenced trading on the Hong Kong Stock Exchange. A total of 382,384,000 shares is available for issue under the 2018 Scheme, which represented 10% of the aggregate of the shares in issue on 23 April 2018, the date of the ordinary resolution passed. Each participant is entitled to no more than 1% of the total number of shares in issue in any 12-month period. The options shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme. The 2010 Scheme and the 2018 Scheme remain in force until 5 January 2020 and 22 April 2028, respectively.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

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37. SHARE OPTION SCHEME (Continued)

2010 Scheme

The following share options were outstanding under the 2010 Scheme during the year:

	2019		2018	
	Exercise price HK\$	Number of options '000	Exercise price HK\$	Number of options '000
At beginning of year	2.4	38,550	2.4	284,000
Exercised during the year	2.4	(38,550)	2.4	(245,450)
At end of year	–	–	2.4	38,550

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options '000	Exercise price HK\$	Exercise period
38,550	2.4	23 December 2018 to 5 January 2020

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37. SHARE OPTION SCHEME *(Continued)*

2010 Scheme *(Continued)*

The fair value of the share options granted in 2016 was HK\$78,448,000 (equivalent to RMB70,281,000) (ranged from HK\$0.275 to HK\$0.276 each), of which the share option expense was fully recognised in profit or loss in prior years (2018: RMB10,374,000).

The fair value of equity-settled share options granted under 2010 Scheme during the prior year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2016
Dividend yield (%)	4.33
Expected volatility (%)	25.59
Risk-free interest rate (%)	2.1
Exit rates of the grantees of the options granted under the 2010 Scheme (%)	0

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

2018 Scheme

The following share options were outstanding under the 2018 Scheme during the year:

	2019		2018	
	Exercise price HK\$	Number of options '000	Exercise price HK\$	Number of options '000
At beginning of year	2.78	382,000	–	–
Granted during the year	–	–	2.78	382,000
Exercised during the year	2.78	(56,000)	–	–
At end of year	2.78	326,000	2.78	382,000

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37. SHARE OPTION SCHEME (Continued)

2018 Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019 Number of options '000	Exercise price HK\$	Exercise period
135,000	2.78	1 July 2019 to 11 December 2028
191,000	2.78	1 July 2020 to 11 December 2028
326,000		
2018 Number of options '000	Exercise price HK\$	Exercise period
191,000	2.78	1 July 2019 to 11 December 2028
191,000	2.78	1 July 2020 to 11 December 2028
382,000		

The fair value of the share options granted in 2018 was HK\$137,017,000 (equivalent to RMB120,397,000) (ranged from HK\$0.33 to HK\$0.38 each), of which the Group recognised a share option expense of RMB93,776,000 (2018: RMB7,163,000) during the year ended 31 December 2019.

The fair value of equity-settled share options granted under 2018 Scheme in 2018 was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2018
Dividend yield (%)	7.19
Expected volatility (%)	28.63
Risk-free interest rate (%)	2.7
Exit rates of the grantees of the options granted under the 2018 Scheme (%)	0

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

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37. SHARE OPTION SCHEME *(Continued)*

2018 Scheme *(Continued)*

At the end of the reporting period, the Company had 326,000,000 (2018: 420,550,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 326,000,000 additional ordinary shares of the Company and additional share capital of HK\$32,600,000 (equivalent to RMB29,144,000) and share premium of HK\$873,680,000 (equivalent to RMB781,070,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 326,000,000 share options outstanding under the Scheme, which represented approximately 7.80% of the Company's shares in issue as at that date.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on pages 74 and 75 of the financial statements.

(b) Capital reserve

Capital reserve represents the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

(c) Statutory surplus reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

For the entities concerned, the statutory surplus reserve can be used to cover previous years' losses, if any, and may be converted into capital in proportion to equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

(d) Merger reserve

The merger reserve represents the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the group reorganisation completed in December 2007.

(e) Share option reserve

Share option reserve represents the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

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39. PERPETUAL CAPITAL INSTRUMENTS

	RMB'000
Carrying amount at 1 January 2018, 31 December 2018 and 1 January 2019	700,000
Redemption of perpetual capital instruments	(700,000)
Carrying amount at 31 December 2019	–

The perpetual capital instruments are jointly guaranteed by the Company and certain subsidiaries, secured by pledge of the shares of the subsidiaries. There are no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers of the perpetual capital instruments.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
West-Coast Investment	N/A*	42%
Nanjing Junyuan	50%	50%
Xiamen Junyou	54%	–
Hangzhou Taixin Enterprise Management Co., Ltd. ("Hangzhou Taixin")	50%	–
Hangzhou Runyi Aviation Services Co., Ltd. ("Hangzhou Runyi")	49%	–
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to non-controlling interests:		
West-Coast Investment	N/A*	(9,801)
Nanjing Junyuan	(6,334)	(303)
Xiamen Junyou	–	–
Hangzhou Taixin	(6,116)	–
Hangzhou Runyi	(561)	–
Accumulated balances of non-controlling interests at the reporting dates:		
West-Coast Investment	N/A*	1,046,654
Nanjing Junyuan	992,164	980,481
Xiamen Junyou	1,099,988	–
Hangzhou Taixin	746,252	–
Hangzhou Runyi	636,439	–

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

The following table illustrates the summarised financial information of Nanjing Junyuan, Xiamen Junyou, Hangzhou Taixin and Hangzhou Runyi. The amounts disclosed are before any inter-company eliminations:

2019	Nanjing Junyuan RMB'000	Xiamen Junyou RMB'000	Hangzhou Taixin RMB'000	Hangzhou Runyi RMB'000
Revenue	–	–	–	–
Other income	167	–	497	11
Total expenses	(12,846)	–	(12,690)	(1,155)
Loss for the year	(12,679)	–	(12,193)	(1,144)
Total comprehensive loss for the year	(12,679)	–	(12,193)	(1,144)
Current assets	3,023,452	7,705,090	2,788,628	2,690,342
Non-current assets	4,988	17,746	2,234	287
Current liabilities	(260,524)	(5,633,672)	(693,743)	(1,391,773)
Non-current liabilities	(782,000)	(50,262)	(609,375)	–
Net cash flows used in operating activities	(383,125)	–	(674,355)	(924,161)
Net cash flows used in investing activities	(85)	–	(68,745)	(32)
Net cash flows from financing activities	478,678	–	920,658	1,675,705
Net increase in cash and cash equivalents	95,468	–	177,558	751,512

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

The following table illustrates the summarised financial information of West-Coast Investment and Nanjing Junyuan. The amounts disclosed are before any inter-company eliminations:

2018	West-Coast Investment RMB'000	Nanjing Junyuan RMB'000
Revenue	196,682	–
Other income	8,580	22
Total expenses	(228,598)	(627)
Loss for the year	(23,336)	(605)
Total comprehensive loss for the year	(23,336)	(605)
Current assets	310,844	508,727
Non-current assets	2,897,920	1,453,175
Current liabilities	(178,607)	(2,508)
Non-current liabilities	(538,123)	–
Net cash flows from/(used in) operating activities	72,437	(1,687,814)
Net cash flows from/(used in) investing activities	38,245	(5)
Net cash flows from/(used in) financing activities	(173,141)	1,689,227
Net increase/(decrease) in cash and cash equivalents	(62,459)	1,408

- * In the opinion of the directors, West-Coast Investment is no longer considered as a partly-owned subsidiary with material non-controlling interests of the Group for the year ended 31 December 2019, and therefore, the summarised financial information of West-Coast Investment for the year ended 31 December 2019 is not presented in the financial statements.

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41. BUSINESS COMBINATION

Year ended 31 December 2019

Acquisition of subsidiaries

On 11 November 2016, the Group entered into agreements in relation to the acquisition of the entire equity interests in Best Century (Worldwide) Limited (“Best Century”) and 40% equity interests in Taiwan Commodity Trading Center (Kunshan) Co., Ltd. (“Taiwan Commodity”). Best Century and its subsidiaries and Taiwan Commodity are engaged in property development in the Jiangsu province in the PRC. The purchase consideration for the acquisition was in the form of cash of RMB1,361,522,000.

On 7 December 2018, the Group entered into an agreement in relation to the acquisition of 51% of the equity interests in Hong Hui Development Company Limited (“Hong Hui”). Hong Hui and its subsidiaries are engaged in property development in the Jiangsu province in the PRC. The purchase consideration for the acquisition was in the form of cash of RMB628,728,000.

The acquisitions of Best Century, Taiwan Commodity and Hong Hui were completed in 2019 and consequently, Best Century, Taiwan Commodity and Hong Hui and their respective subsidiaries became non-wholly-owned subsidiaries of the Group.

The fair values of the identifiable assets and liabilities of the acquisition of subsidiaries as at the date of acquisition were as follows:

	Notes	RMB'000
Property and equipment	14	325
Investment in an associate		67,364
Properties under development		4,649,300
Completed properties held for sale		490,900
Other current assets		62,315
Cash and cash equivalents		1,266
Trade and bills payables		(2,573)
Contract liabilities		(108,636)
Other current liabilities		(331,921)
Tax payable		(7,866)
Deferred tax liabilities	34	(1,353,062)
Non-controlling interests		(912,813)
Total identifiable net assets at fair value		2,554,599
Gain on bargain purchase	6, 8	(564,349)
		1,990,250
Satisfied by:		
Cash		1,990,250

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41. BUSINESS COMBINATION *(Continued)*

Year ended 31 December 2019 *(Continued)*

Acquisition of subsidiaries *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(1,990,250)
Cash and cash equivalents acquired	1,266
Outstanding consideration at the end of the reporting period	375,360
Consideration prepaid in prior year	904,199
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	(709,425)

The results of the Best Century, Taiwan Commodity, Hong Hui and their respective subsidiaries acquired during the year had no significant impact on the Group's consolidated revenue or profit for the year ended 31 December 2019.

The gain on bargain purchase is attributable to the market condition at the time of acquisition and the Group's ability in negotiating the agreed terms of the transaction with the vendor.

NOTES TO FINANCIAL STATEMENTS

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41. BUSINESS COMBINATION *(Continued)*

Year ended 31 December 2019 *(Continued)*

Deemed acquisition of a subsidiary

On 19 December 2019, the Group reached a resolution (the "Resolution") with the joint venture partners of Xiamen Junyou, pursuant to which the Group is entitled to appoint three of the five directors in the board of directors of Xiamen Junyou. Xiamen Junyou was previously a 50%-owned joint venture, and as a result of the Resolution, the Group obtained control of Xiamen Junyou. Xiamen Junyou is principally engaged in the business of property development in Xiamen.

The fair values of the identifiable assets and liabilities of the deemed acquisition of a subsidiary as at the date of acquisition were as follows:

	Notes	Xiamen Junyou RMB'000
Property and equipment	14	474
Properties under development		4,425,000
Other current assets		2,545,862
Prepaid income tax		207,291
Cash and cash equivalents		526,937
Trade and bills payables		(83,415)
Contract liabilities		(5,547,657)
Other current liabilities		(2,600)
Deferred tax liabilities	34	(32,990)
Non-controlling interests		(1,099,376)
Total identifiable net assets at fair value		939,526
Reclassification of investment in a joint venture		(939,526)
Gain on deemed acquisition of a subsidiary		—

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41. BUSINESS COMBINATION *(Continued)***Year ended 31 December 2019** *(Continued)***Deemed acquisition of a subsidiary** *(Continued)*

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash and cash equivalents acquired	526,937
Net inflow of cash and cash equivalents in respect of deemed acquisition of a subsidiary	526,937

The result of the Xiamen Junyou acquired during the year had no significant impact on the Group's consolidated revenue or profit for the year ended 31 December 2019.

Year ended 31 December 2018**Deemed acquisition of subsidiaries**

On 13 June 2018, the Group reached a resolution (the "Resolution") with the joint venture partner of Cheer Rich Investments Limited ("Cheer Rich"), pursuant to which the Group is entitled to appoint three of the five directors in the board of directors of Cheer Rich. Cheer Rich was previously a 44.5%-owned joint venture, and as a result of the Resolution, the Group obtained control of Cheer Rich. Cheer Rich and its subsidiaries (the "Cheer Rich Group") are principally engaged in the business of property development and property investment in Shanghai.

NOTES TO FINANCIAL STATEMENTS

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41. BUSINESS COMBINATION (Continued)

Year ended 31 December 2018 (Continued)

Deemed acquisition of subsidiaries (Continued)

The fair values of the identifiable assets and liabilities of the acquisition of subsidiaries as at the date of acquisition were as follows:

	Notes	Cheer Rich Group RMB'000	Others RMB'000	Total RMB'000
Property and equipment	14	534	246	780
Investment properties	15	6,340,000	–	6,340,000
Properties under development		–	644,000	644,000
Completed properties held for sale		73,600	–	73,600
Trade receivables		53,384	–	53,384
Prepaid income tax		–	15,234	15,234
Restricted cash		24,815	113,201	138,016
Cash and cash equivalents		16,999	76,461	93,460
Other current assets		2,196,685	247,121	2,443,806
Trade and bills payables		(941,646)	(24,079)	(965,725)
Contract liabilities		(44,541)	(677,572)	(722,113)
Tax payable		(129,347)	–	(129,347)
Other current liabilities		(2,481,677)	(237,263)	(2,718,940)
Interest-bearing bank and other borrowings		(544,000)	–	(544,000)
Deferred tax liabilities	34	(779,714)	(505)	(780,219)
Non-controlling interests		(1,244,621)	(94,107)	(1,338,728)
Total identifiable net assets at fair value		2,540,471	62,737	2,603,208
Reclassification of investments in joint venture and associate		(2,537,289)	(92,902)	(2,630,191)
Gain/(loss) on deemed acquisition of subsidiaries		3,182	(30,165)	(26,983)

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41. BUSINESS COMBINATION *(Continued)***Year ended 31 December 2018** *(Continued)***Deemed acquisition of subsidiaries** *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash and cash equivalents acquired	93,460
Net inflow of cash and cash equivalents in respect of deemed acquisition of subsidiaries	93,460

Since the acquisition, Cheer Rich Group contributed RMB61,247,000 to the Group's revenue and RMB277,929,000 to the Group's profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the prior year, the revenue and the profit of the Group for the prior year would have been RMB18,090,689,000 and RMB4,183,679,000, respectively.

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS

Year ended 31 December 2019

In May 2019, the Group entered into an equity transfer agreement with an independent third party for the acquisition of a 51% equity interest in Chongqing Sanchengyihui at a consideration of RMB510,000,000. The acquisition was completed in May 2019, and Chongqing Sanchengyihui became a non-wholly-owned subsidiary of the Group.

In June 2019, the Group entered into an equity transfer agreement with two independent third parties for the acquisition of 100% equity interest in Sky Peace Holdings Limited ("Sky Peace"), which wholly owned each of Shanwei Dongweiyi Development Property Co., Ltd. and Shanwei Xinji Development Property Co., Ltd. (collectively, "Sky Peace Group"), at a consideration of RMB458,010,000. The acquisition was completed in June 2019, and Sky Peace Group became wholly-owned subsidiaries of the Group.

Save as disclosed above, the Group acquired certain property development companies with an aggregate consideration of RMB155,750,000 during the year.

NOTES TO FINANCIAL STATEMENTS

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42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2019 *(Continued)*

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Chongqing Sanchengyihui RMB'000	Sky Peace Group RMB'000	Others RMB'000	Total RMB'000
Net assets acquired:					
Property and equipment	14	–	7	–	7
Properties under development		565,001	607,087	243,239	1,415,327
Deferred tax assets	34	–	22	–	22
Other current assets		691,650	95	308	692,053
Cash and cash equivalents		6,846	279	180,000	187,125
Trade and bills payable		(514)	(223)	(8)	(745)
Other current liabilities		(263,841)	(149,257)	(188,539)	(601,637)
Non-controlling interests		(489,142)	–	(79,250)	(568,392)
		510,000	458,010	155,750	1,123,760
Satisfied by:					
Cash		510,000	458,010	155,750	1,123,760

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(1,123,760)
Consideration payable	255,200
Cash and cash equivalents acquired	187,125
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries that are not a business	(681,435)

Prior to completion of the respective acquisitions, these subsidiaries had not carried on any significant business activities. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of these subsidiaries do not constitute a business.

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42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2018

On 24 July 2018, the Group entered into an equity transfer agreement with an independent third party for the acquisition of a 70% equity interest in Songming Zhongji at a consideration of RMB640,866,000. The acquisition was completed on 24 July 2018 and Songming Zhongji became a non-wholly-owned subsidiary of the Group.

On 10 August 2018, the Group entered into an equity transfer agreement with nine independent third parties for the acquisition of a 80% equity interest in Quanzhou Xinzhongrui Real Estate Development Co., Ltd. ("Quanzhou Xinzhongrui") at a consideration of RMB130,760,000. The acquisition was completed on 10 August 2018 and Quanzhou Xinzhongrui became a non-wholly-owned subsidiary of the Group.

Save as disclosed above, the Group also acquired certain property development companies at a total consideration of RMB130,742,000 during the prior year.

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Songming Zhongji RMB'000	Quanzhou Xinzhongrui RMB'000	Others RMB'000	Total RMB'000
Net assets acquired:					
Property and equipment	14	5	–	–	5
Properties under development		868	–	96	964
Prepaid land lease payments	16	647,075	163,450	224,242	1,034,767
Other current assets		29,714	–	12,956	42,670
Cash and cash equivalents		8,147	–	533	8,680
Other current liabilities		(67)	(113,450)	(163,665)	(277,182)
Non-controlling interests		(44,876)	(10,000)	(28,593)	(83,469)
		640,866	40,000	45,569	726,435
Satisfied by:					
Cash		640,866	130,760	130,742	902,368
Shareholders' loans		–	(90,760)	(85,173)	(175,933)
		640,866	40,000	45,569	726,435

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42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2018 *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(726,435)
Cash and cash equivalents acquired	8,680
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries that are not a business	(717,755)

Prior to completion of the respective acquisitions, these subsidiaries had not carried on any significant business activities. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of these subsidiaries do not constitute a business.

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43. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2019

Details of the net assets of the subsidiaries disposed during the year and the financial impacts were as follows:

	Notes	Million Thrive		Total
		Sure Source Group RMB'000	International Limited and its subsidiaries RMB'000	RMB'000
Net assets disposal of:				
Property and equipment	14	–	7	7
Investment properties	15	1,083,000	638,000	1,721,000
Other current assets		293,987	12,799	306,786
Cash and cash equivalents		5,999	58,656	64,655
Trade and bills payables		(10,241)	(160,356)	(170,597)
Interest-bearing bank and other borrowings		(371,000)	(227,000)	(598,000)
Other current liabilities		(286,538)	(53,811)	(340,349)
Deferred tax liabilities	34	–	(26,654)	(26,654)
		715,207	241,641	956,848
Gain/(loss) on disposal of subsidiaries	6, 8	39,890	(22,673)	17,217
Reclassification to investments in joint ventures at fair value at date of disposal		(357,604)	(120,820)	(478,424)
		397,493	98,148	495,641
Satisfied by:				
Cash		397,493	98,148	495,641

An analysis of the net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash and cash equivalents deconsolidated	(64,655)
Cash consideration	495,641
Cash consideration receivable	(46,493)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	384,493

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44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had deemed acquisitions of subsidiaries with a total identifiable net assets fair value of RMB939,526,000 (2018: RMB2,603,208,000). Further details are set out in note 41 to these financial statements.

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB211,021,000 and RMB211,021,000 respectively, in respect of lease arrangements for building.

(b) Changes in liabilities arising from financing activities

	Notes	Lease liabilities RMB'000	Interest-bearing bank and other borrowings RMB'000	Senior notes and domestic bonds RMB'000
At 1 January 2018		–	12,631,455	8,891,625
Changes from financing cash flows		–	6,694,573	3,704,469
Foreign exchange movement		–	233,179	572,517
Interest expense		–	28,794	37,033
Deemed acquisition of subsidiaries	41	–	544,000	–
At 31 December 2018		–	20,132,001	13,205,644
Effect of adoption of HKFRS 16		78,645	–	–
At 1 January 2019 (restated)		78,645	20,132,001	13,205,644
Changes from financing cash flows		(42,874)	1,632,515	7,142,491
New leases		211,021	–	–
Foreign exchange movement		–	65,062	391,883
Interest expense		19,774	28,678	76,808
Interest paid classified as operating cash flows		(19,774)	–	–
Disposal of subsidiaries	43	–	(598,000)	–
At 31 December 2019		246,792	21,260,256	20,816,826

(c) Total cash outflow for leases

	2019 RMB'000
Within operating activities	24,186
Within financing activities	42,874
	67,060

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45. FINANCIAL GUARANTEES

The Group does not hold any collateral or other credit enhancements over the guarantees. The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor. The amount initially recognised represents the fair value at initial recognition of the financial guarantees.

- (a) At the end of the reporting period, the Group had financial guarantees which are not provided for in the financial statements as follows:

	2019 RMB'000	2018 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes)	20,307,223	15,912,024

Notes:

- (i) As at 31 December 2019, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any sales proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction or other appropriate means. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

- (ii) The fair value of the guarantees is not significant and the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

In addition, the Group's share of the joint ventures and associates' own financial guarantees, which are not included in the above, is as follows:

	2019 RMB'000	2018 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures and associates' properties	2,652,313	1,097,021

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45. FINANCIAL GUARANTEES *(Continued)*

- (b) At the end of the reporting period, financial guarantee given to banks in connection with loan facilities granted to joint ventures and associates are not provided for in the financial statements is as follows:

	2019	2018
	RMB'000	RMB'000
Guarantees given to banks in connection with loan facilities granted to joint ventures and associates	7,935,790	2,414,790

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

46. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure certain bank and other borrowings granted to the Group:

	Notes	2019	2018
		RMB'000	RMB'000
Bank deposits	29	450,253	47,909
Property and equipment	14	10,630	19,938
Investment properties	15	10,260,000	16,148,278
Prepaid land lease payments	16	–	2,400,597
Properties under development	19	31,504,324	18,029,459
Completed properties held for sale	24	2,117,351	304,098
		44,342,558	36,950,279

31 December 2019

47. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
<hr/>		
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	18,951,500	15,245,582
	<hr/>	

In addition, the Group's share of the joint ventures and associates' own capital commitments, which are not included in the above, is as follows:

	2019	2018
	RMB'000	RMB'000
<hr/>		
Contracted, but not provided for:		
Capital expenditure for joint ventures and associates' properties under development and construction of investment properties in Mainland China	3,737,499	2,803,668
	<hr/>	

- (b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	
	RMB'000	
<hr/>		
Within one year	35,818	
In the second to fifth years, inclusive	26,781	
	<hr/>	
	62,599	
	<hr/>	

NOTES TO FINANCIAL STATEMENTS

31 December 2019

48. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed in note 27 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 RMB'000	2018 RMB'000
Property rental income from companies controlled by the Wong Family	(i)	5,531	8,393
Property rental income from associates controlled by the Wong Family	(i)	2,823	–
Property management fees received from companies controlled by the Wong Family	(i)	1,070	3,803
Property management fees received from associates controlled by the Wong Family	(i)	4,836	–
Property rental expenses paid to associates controlled by the Wong Family	(i)	15,162	–
Aircraft leasing expense paid to a company controlled by Mr. Wong	(ii)	4,102	3,926
Project management income received from joint ventures	(iii)	174,313	90,546
Interest income on amounts due from joint ventures	(iv)	150,358	–
Consultancy service income received from joint ventures and associates	(v)	47,071	–
Purchase of a property from a joint venture	(vi)	–	543,418
Subscription of shares in a company controlled by the Wong Family	(vii)	200,000	–
Sales of a property to the Wong Family	(viii)	38,699	–

Notes:

- (i) The transactions were based on terms mutually agreed between the Group and the related parties.
- (ii) The leasing expense was charged at US\$50,000 (2018: US\$50,000) per month.
- (iii) The project management income was charged with reference to the contracted sales amount and certain costs incurred on property development projects.
- (iv) Interest was charged at rates ranging from 7.6% to 10.0% per annum.
- (v) The consultancy service income was charged with reference to the consultancy service agreements entered into between the Group and related companies.
- (vi) The purchase price of the property was agreed between the Group and the joint venture by negotiation.
- (vii) On 25 January 2019, the Group subscribed for 25% equity interests in Fun Work Group Holdings Limited (“Fun Work”) at a consideration of RMB200,000,000 and Fun Work and its subsidiaries became associates of the Group.
- (viii) The property was sold at prices mutually agreed by both parties.

31 December 2019

48. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) In the opinion of the directors, the directors of the Company represent the key management personnel of the Group. Further details of the compensation of key management personnel of the Group are set out in note 9 to the financial statements.

Transactions of items (a)(i), (a)(ii), (a)(vii) and (a)(viii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

49. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments and financial assets at fair value through profit or loss, which are measured at fair value, other financial assets and liabilities of the Group as at 31 December 2019 and 2018 were financial assets and financial liabilities stated at amortised cost, respectively.

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, financial assets at fair value through profit or loss and senior notes and domestic bonds, reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of interest-bearing bank and other borrowings, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 and 31 December 2018 was assessed to be insignificant.

Derivative financial instruments, the capped forward cross currency swap contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of capped forward cross currency swap contracts are the same as their fair values as at 31 December 2018.

The fair values of listed equity investments are based on quoted market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

The fair values of unlisted equity investments as at 31 December 2019 and 31 December 2018 are based on price quotation from the respective fund manager or estimates based on enterprise value to earnings before interest, taxes, depreciation and amortisation (“EV/EBITDA”) multiple for similar companies adjusted to reflect the specific circumstances of the investments.

Below is a summary of significant unobservable inputs to the valuation of financial assets at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
As at 31 December 2019				
Unlisted equity investments at fair value through profit or loss	Valuation multiples	Average EV/EBITDA multiple of peers rate	9.13	5% increase/(decrease) in multiple would have no material impact on the fair value
		Discount for lack of marketability	25%	5% increase/(decrease) in discount would have no material impact on the fair value
As at 31 December 2018				
Unlisted equity investments at fair value through profit or loss	Valuation multiples	Average EV/EBITDA multiple of peers rate	11.92	5% increase/(decrease) in multiple would have no material impact on the fair value
		Discount for lack of marketability	25%	5% increase/(decrease) in discount would have no material impact on the fair value

31 December 2019

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	34,668	–	630,402	665,070

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	65,053	–	577,387	642,440

NOTES TO FINANCIAL STATEMENTS

31 December 2019

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	26,739	–	26,739

During the year, there was no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2018: Nil).

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, senior notes and domestic bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also entered into derivative transactions such as capped forward cross currency swap contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group's accounting policies related to derivatives are set out in note 3 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
RMB	150	(181,276)
HK\$	150	(50,277)
US\$	150	(926)
RMB	(150)	181,276
HK\$	(150)	50,277
US\$	(150)	926
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
RMB	150	(140,748)
HK\$	150	(41,056)
US\$	150	(31,446)
RMB	(150)	140,748
HK\$	(150)	41,056
US\$	(150)	31,446

NOTES TO FINANCIAL STATEMENTS

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong, in which bank and other borrowings and senior notes were denominated either in HK\$ or US\$. The fluctuation of exchange rate of RMB against other foreign currencies will not have material adverse effect on the operating results of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate against HK\$, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2019		
If HK\$ weakens against RMB	3%	12,768
If HK\$ strengthens against RMB	(3%)	(12,768)

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2018		
If HK\$ weakens against RMB	3%	14,500
If HK\$ strengthens against RMB	(3%)	(14,500)

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 45(a).

The credit risk of the Group's trade receivables and other financial assets, which mainly comprise cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Financial assets measured at amortised cost are all classified under stage 1 for measurement of ECLs except for trade receivables which apply simplified approach in calculating ECLs. The loss allowance provision for restricted cash, pledged deposits, cash and cash equivalents, trade receivables, financial assets included in prepayment, other receivables and other assets and due from related parties were not significant as at 31 December 2019 and 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand RMB'000	In the second year RMB'000	2019 In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	9,834,808	7,145,394	5,132,961	1,359,089	23,472,252
Senior notes and domestic bonds	4,951,727	8,381,691	10,400,729	–	23,734,147
Trade and bills payables	14,702,354	241,433	15,911	–	14,959,698
Financial liabilities included in other payables and accruals (excluding lease liabilities)	12,373,184	–	–	–	12,373,184
Lease liabilities	64,786	49,148	82,607	154,954	351,495
Due to related parties	7,505,159	–	–	–	7,505,159
	49,432,018	15,817,666	15,632,208	1,514,043	82,395,935
Financial guarantees issued:					
Maximum amount guaranteed	28,243,013	–	–	–	28,243,013

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	Within one year or on demand RMB'000	In the second year RMB'000	2018 In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	11,591,819	3,490,463	6,675,911	347,438	22,105,631
Senior notes and domestic bonds	742,158	6,666,584	7,931,422	–	15,340,164
Trade and bills payables	8,208,575	120,770	17,788	–	8,347,133
Financial liabilities included in other payables and accruals	9,929,465	–	–	–	9,929,465
Due to related parties	1,246,015	–	–	–	1,246,015
	31,718,032	10,277,817	14,625,121	347,438	56,968,408
Financial guarantees issued:					
Maximum amount guaranteed	18,326,814	–	–	–	18,326,814

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a net gearing ratio, which is net debt divided by the total equity. Net debt includes total interest-bearing bank and other borrowings, senior notes and domestic bonds (as shown in the consolidated statement of financial position) less cash and bank balances (including restricted cash, time deposits and pledged deposits). Capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital instruments and reserves). The Group aims to maintain a healthy and stable net gearing ratio.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The net gearing ratios as at 31 December 2019 and 31 December 2018 were as follows:

	Notes	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings	32	21,260,256	20,132,001
Senior notes and domestic bonds	33	20,816,826	13,205,644
Less: Cash and bank balances	29	(23,898,660)	(19,972,815)
Net debt		18,178,422	13,364,830
Total equity		30,286,187	22,139,407
Net gearing ratio		60%	60%

52. EVENTS AFTER THE REPORTING PERIOD

In January 2020, the Group issued additional senior notes at coupon rate of 7.375% due 2024 with aggregate principal amount of US\$150,000,000 at a price of 103.181% of the principal amount. The additional senior notes have been consolidated and formed a single class with the 2019 April Senior Notes.

53. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

31 December 2019

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Prepayments	44,482	–
Investment in a subsidiary	–	–
Due from subsidiaries	2,449,128	2,407,213
Total non-current assets	2,493,610	2,407,213
CURRENT ASSETS		
Prepayments	475	976
Due from subsidiaries	12,957,470	9,299,552
Cash and cash equivalents	198,865	795,612
Total current assets	13,156,810	10,096,140
CURRENT LIABILITIES		
Other payables and accruals	424,174	125,013
Derivative financial instruments	–	26,739
Interest-bearing bank and other borrowings	948,583	2,491,593
Total current liabilities	1,372,757	2,643,345
NET CURRENT ASSETS	11,784,053	7,452,795
TOTAL ASSETS LESS CURRENT LIABILITIES	14,277,663	9,860,008
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	2,464,904	2,797,225
Senior notes	16,840,134	9,776,918
Total non-current liabilities	19,305,038	12,574,143
Net liabilities	(5,027,375)	(2,714,135)
EQUITY		
Issued capital	361,497	353,077
Reserves (note)	(5,388,872)	(3,067,212)
Total equity	(5,027,375)	(2,714,135)

Wong Chiu Yeung
Director

Huang Youquan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2019

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018		1,760,214	(133,770)	56,798	(3,668,643)	(1,985,401)
Total comprehensive loss for the year		–	(187,374)	–	(818,083)	(1,005,457)
Share options exercised		559,765	–	(60,014)	–	499,751
Issue of shares for scrip dividend		46,335	–	–	–	46,335
2017 final dividend		(413,984)	–	–	–	(413,984)
2018 interim dividend	12	(225,993)	–	–	–	(225,993)
Equity-settled share option arrangements	37	–	–	17,537	–	17,537
At 31 December 2018 and 1 January 2019		1,726,337	(321,144)	14,321	(4,486,726)	(3,067,212)
Total comprehensive loss for the year		–	(87,487)	–	(1,673,765)	(1,761,252)
Share options exercised		240,999	–	(24,535)	–	216,464
2018 final dividend	12	(507,878)	–	–	–	(507,878)
2019 interim dividend	12	(362,770)	–	–	–	(362,770)
Equity-settled share option arrangements	37	–	–	93,776	–	93,776
At 31 December 2019		1,096,688	(408,631)	83,562	(6,160,491)	(5,388,872)

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

INDEPENDENT AUDITOR'S REPORT



To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China SCE Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 198, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with 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 judgement, 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Estimation of fair value of investment properties

The Group has various investment properties in Mainland China. Such investment properties are measured at fair value and the aggregate carrying amount of these investment properties was approximately RMB20.3 billion as at 31 December 2018.

Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period.

The accounting policies and disclosures for the estimation of the fair value of investment properties are included in notes 3, 4 and 15 to the consolidated financial statements.

We evaluated the objectivity, independence and competency of the valuer. We also involved our internal valuation specialists to assist us to assess the methodologies and assumptions adopted in the valuation for estimating the fair value of the investment properties.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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.

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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China SCE Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Anthony S.T. Leung.

Ernst & Young

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	6	17,782,886	16,105,245
Cost of sales		(11,636,290)	(10,620,061)
Gross profit		6,146,596	5,485,184
Other income and gains	6	386,637	122,812
Changes in fair value of investment properties, net	15	1,082,540	1,262,744
Selling and marketing expenses		(398,421)	(530,538)
Administrative expenses		(1,298,702)	(963,431)
Other expenses		–	(332,561)
Finance costs	7	(401,686)	(392,048)
Share of profits and losses of:			
Joint ventures		513,275	814,542
Associates		22,217	(6,062)
PROFIT BEFORE TAX	8	6,052,456	5,460,642
Income tax expense	11	(2,375,633)	(2,012,091)
PROFIT FOR THE YEAR		3,676,823	3,448,551
OTHER COMPREHENSIVE INCOME/(LOSS):			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income/(loss) of joint ventures		(13,837)	46,017
Share of other comprehensive income/(loss) of associates		(28)	157
Exchange differences on translation of foreign operations		(486,437)	578,541
Release of other reserves upon deemed acquisition of subsidiaries		40,539	–
Available-for-sale investments:			
Change in fair value		–	52,051
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		(459,763)	676,766
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		–	82,872
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(459,763)	759,638
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,217,060	4,208,189

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Profit attributable to:			
Owners of the parent		3,385,284	2,840,035
Holders of perpetual capital instruments		58,363	51,975
Non-controlling interests		233,176	556,541
		3,676,823	3,448,551
Total comprehensive income attributable to:			
Owners of the parent		3,019,205	3,516,512
Holders of perpetual capital instruments		58,363	51,975
Non-controlling interests		139,492	639,702
		3,217,060	4,208,189
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	13		
Basic		RMB87.8 cents	RMB79.9 cents
Diluted		RMB86.0 cents	RMB78.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	680,784	104,894
Investment properties	15	20,270,300	10,251,718
Prepaid land lease payments	16	5,028,066	5,414,497
Intangible asset	17	3,319	3,489
Properties under development	18	2,730,414	1,524,085
Contract in progress	19	326,907	340,667
Investments in joint ventures	20	5,683,818	3,308,894
Investments in associates	21	155,072	115,265
Available-for-sale investments	22	–	229,541
Prepayments and other assets	26	3,836,906	2,948,515
Deferred tax assets	34	561,628	344,923
Total non-current assets		39,277,214	24,586,488
CURRENT ASSETS			
Properties under development	18	28,101,140	21,740,001
Completed properties held for sale	24	3,242,502	2,967,252
Trade receivables	25	401,785	57,634
Prepayments, other receivables and other assets	26	4,855,783	2,881,509
Financial assets at fair value through profit or loss	28	642,440	–
Due from related parties	27	4,009,493	3,468,627
Prepaid income tax		987,603	831,372
Restricted cash	29	4,409,592	1,471,342
Pledged deposits	29	47,909	25,300
Cash and cash equivalents	29	15,515,314	8,145,483
Total current assets		62,213,561	41,588,520
CURRENT LIABILITIES			
Trade and bills payables	30	8,347,133	3,152,203
Other payables and accruals	31	9,929,465	20,136,559
Contract liabilities	31	21,539,926	–
Interest-bearing bank and other borrowings	32	10,537,381	4,481,209
Derivative financial instruments	23	26,739	40,364
Senior notes and domestic bonds	33	–	3,477,192
Due to related parties	27	1,246,015	1,707,222
Tax payable		2,599,736	1,643,712
Total current liabilities		54,226,395	34,638,461

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		7,987,166	6,950,059
TOTAL ASSETS LESS CURRENT LIABILITIES		47,264,380	31,536,547
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	9,594,620	8,150,246
Derivative financial instruments	23	–	149,031
Senior notes and domestic bonds	33	13,205,644	5,414,433
Deferred tax liabilities	34	2,279,297	1,226,399
Provision for major overhauls	35	45,412	38,568
Total non-current liabilities		25,124,973	14,978,677
Net assets		22,139,407	16,557,870
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	353,077	329,804
Reserves	38	15,129,109	12,128,322
		15,482,186	12,458,126
Perpetual capital instruments	39	700,000	700,000
Non-controlling interests		5,957,221	3,399,744
Total equity		22,139,407	16,557,870

Wong Chiu Yeung
Director

Huang Youquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent														Total equity RMB'000	
	Issued capital RMB'000 (note 36)	Share premium account RMB'000	Capital reserve RMB'000 (note 38(b))	Statutory surplus reserve RMB'000 (note 38(c))	Merger reserve RMB'000 (note 38(d))	Available-for-sale investments revaluation reserve RMB'000	Property revaluation reserve RMB'000	Other reserves RMB'000	Share option reserve RMB'000 (note 38(e))	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 39)		Non-controlling interests RMB'000
At 1 January 2017	295,732	1,195,848	(155,839)	755,856	30	-	-	(70,676)	2,833	(44,811)	(452,470)	6,881,314	8,407,817	900,000	2,764,014	12,071,831
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	2,840,035	2,840,035	51,975	556,541	3,448,551
Other comprehensive income for the year:																
Share of other comprehensive income of joint ventures	-	-	-	-	-	-	-	46,017	-	-	-	-	46,017	-	-	46,017
Share of other comprehensive income of associates	-	-	-	-	-	-	-	157	-	-	-	-	157	-	-	157
Change in fair value of available-for-sale investments	-	-	-	-	-	52,051	-	-	-	-	-	-	52,051	-	-	52,051
Gain on property revaluation	-	-	-	-	-	-	82,872	-	-	-	-	-	82,872	-	-	82,872
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	495,380	-	495,380	-	83,161	578,541
Total comprehensive income for the year	-	-	-	-	-	52,051	82,872	46,174	-	-	495,380	2,840,035	3,516,512	51,975	639,702	4,208,189
Capital reduction of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(48,500)	(48,500)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	763,085	763,085
Acquisition of non-controlling interests	-	-	(118,606)	-	-	-	-	-	-	-	-	-	(118,606)	-	(395,793)	(514,399)
Acquisition of subsidiaries that are not a business (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,572	81,572
Issue of shares (note 36)	34,072	1,189,234	-	-	-	-	-	-	-	-	-	-	1,223,306	-	-	1,223,306
Redemption of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(200,000)	-	(200,000)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(404,336)	(404,336)
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(51,975)	-	(51,975)
2016 final dividend	-	(429,439)	-	-	-	-	-	-	-	-	-	-	(429,439)	-	-	(429,439)
2017 interim dividend	-	(195,429)	-	-	-	-	-	-	-	-	-	-	(195,429)	-	-	(195,429)
Transfer to statutory surplus reserve	-	-	-	359,132	-	-	-	-	-	-	-	(359,132)	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	53,965	-	-	-	53,965	-	-	53,965
At 31 December 2017	329,804	1,760,214*	(274,445)*	1,114,988*	30*	52,051*	82,872*	(24,502)*	56,798*	(44,811)*	42,910*	9,362,217*	12,458,126	700,000	3,399,744	16,557,870

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent														Total equity RMB'000	
	Issued capital RMB'000 (note 36)	Share premium RMB'000	Capital reserve RMB'000 (note 38(b))	Statutory surplus reserve RMB'000 (note 38(c))	Merger reserve RMB'000 (note 38(d))	Available-for-sale investments revaluation reserve RMB'000	Property revaluation reserve RMB'000	Other reserves RMB'000	Share option reserve RMB'000 (note 38(e))	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000 (note 39)		Non-controlling interests RMB'000
At 31 December 2017	329,804	1,760,214*	(274,445)*	1,114,988*	30*	52,051*	82,872*	(24,502)*	56,798*	(44,811)*	42,910*	9,362,217*	12,458,126	700,000	3,399,744	16,557,870
Effect of adoption of HKFRS 15 (note 2)	-	-	-	-	-	-	-	-	-	-	-	50,466	50,466	-	761	51,227
Effect of adoption of HKFRS 9 (note 2)	-	-	-	-	-	(52,051)	-	-	-	-	-	52,051	-	-	-	-
At 1 January 2018 (restated)	329,804	1,760,214	(274,445)	1,114,988	30	-	82,872	(24,502)	56,798	(44,811)	42,910	9,464,734	12,508,592	700,000	3,400,505	16,609,097
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	3,385,284	3,385,284	58,363	233,176	3,676,823
Other comprehensive income/(loss) for the year:																
Release of other reserves upon deemed acquisition of subsidiaries	-	-	-	-	-	-	-	40,539	-	-	-	-	40,539	-	-	40,539
Share of other comprehensive loss of joint ventures	-	-	-	-	-	-	-	(13,837)	-	-	-	-	(13,837)	-	-	(13,837)
Share of other comprehensive loss of associates	-	-	-	-	-	-	-	(28)	-	-	-	-	(28)	-	-	(28)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(392,753)	-	(392,753)	-	(93,684)	(486,437)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	26,674	-	-	(392,753)	3,385,284	3,019,205	58,363	139,492	3,217,060
Capital reduction of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(44,739)	(44,739)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,545,511	1,545,511
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(505,745)	(505,745)
Deemed acquisition of subsidiaries (note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,338,728	1,338,728
Acquisition of subsidiaries that are not a business (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	83,469	83,469
Distribution to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(58,363)	-	(58,363)
Deregistration of a subsidiary	-	-	7,470	-	-	-	-	-	-	-	-	-	7,470	-	-	7,470
Share options exercised	21,728	559,765	-	-	-	-	-	-	(60,014)	-	-	-	521,479	-	-	521,479
Issue of shares for scrip dividend	1,545	46,335	-	-	-	-	-	-	-	-	-	-	47,880	-	-	47,880
2017 final dividend	-	(413,984)	-	-	-	-	-	-	-	-	-	-	(413,984)	-	-	(413,984)
2018 interim dividend	-	(225,993)	-	-	-	-	-	-	-	-	-	-	(225,993)	-	-	(225,993)
Transfer to statutory surplus reserve	-	-	-	171,944	-	-	-	-	-	-	-	(171,944)	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	17,537	-	-	-	17,537	-	-	17,537
At 31 December 2018	353,077	1,726,337*	(266,975)*	1,286,932*	30*	-*	82,872*	2,172*	14,321*	(44,811)*	(349,843)*	12,678,074*	15,462,186	700,000	5,957,221	22,139,407

* These reserve accounts comprise the consolidated reserves of RMB15,129,109,000 (31 December 2017: RMB12,128,322,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,052,456	5,460,642
Adjustments for:			
Finance costs	7	401,686	392,048
Share of profits and losses of:			
Joint ventures		(513,275)	(814,542)
Associates		(22,217)	6,062
Bank interest income	6	(87,924)	(41,085)
Gain on disposal of items of property and equipment, net	6,8	(11,190)	(1,601)
Gain on deemed disposal of a subsidiary upon loss of control	6,43	–	(20,903)
Loss on deemed acquisition of subsidiaries, net	8,41	26,983	–
Fair value losses/(gains), net:			
Derivative financial instruments — transactions not qualifying as hedges	6,8	(166,338)	332,561
Financial assets at fair value through profit or loss	8	39,285	–
Remeasurement of investment in an associate	6,8	(21,097)	–
Loss on disposal of investment properties, net	8	11,988	10,171
Depreciation	8,14	33,065	21,580
Changes in fair value of investment properties, net	15	(1,082,540)	(1,262,744)
Amortisation of prepaid land lease payments	8,16	8,281	17,271
Amortisation of an intangible asset	8,17	170	164
Write down to net realisable value of completed properties held for sale	8	–	66,698
Equity-settled share option expense		17,537	53,965
		4,686,870	4,220,287
Additions to prepaid land lease payments	16	(6,422,996)	(6,626,250)
Increase in properties under development		(9,386,066)	(5,168,434)
Increase in contract in progress	19	(3,882)	(23,038)
Decrease in completed properties held for sale		11,298,108	10,342,470
Decrease/(increase) in trade receivables		(290,767)	127,400
Increase in prepayments, other receivables and other assets		(3,194,534)	(2,445,687)
Increase in trade and bills payables		4,229,205	352,368
Increase in other payables and accruals		1,732,560	5,409,073
Increase in contract liabilities		5,206,981	–
Increase in provision for major overhauls, net	35	4,800	4,263
Cash generated from operations		7,860,279	6,192,452
Interest received		87,924	41,085
Interest paid		(2,013,896)	(1,483,544)
PRC corporate income tax paid		(880,220)	(810,384)
PRC land appreciation tax paid		(772,475)	(516,059)
Net cash flows from operating activities		4,281,612	3,423,550

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	14	(619,186)	(51,215)
Proceeds from disposal of items of property and equipment		22,206	3,146
Additions to investment properties	15	(781,067)	(530,144)
Proceeds from disposal of investment properties		177,517	7,811
Prepayment for acquisition of subsidiaries		–	(955,042)
Prepayment for acquisition of an associate		(60,000)	–
Prepayment for establishment of joint ventures		(697,371)	–
Acquisition of subsidiaries that are not a business	42	(717,755)	(2,258,039)
Deemed acquisition of subsidiaries	41	93,460	–
Deemed disposal of a subsidiary upon loss of control	43	–	(105,619)
Investment in joint ventures		(1,837,968)	(1,295,172)
Dividend from joint ventures		247,938	202,027
Investment in an associate		(1,600)	(7,500)
Dividend from associates		540	525
Loans to joint ventures and associates		(1,227,796)	(2,934,465)
Purchase of financial assets at fair value through profit or loss/ available-for-sale investments		(439,532)	(48,406)
Increase in restricted cash		(2,800,234)	(342,519)
Decrease/(increase) in pledged deposits		(22,609)	236,641
Net cash flows used in investing activities		(8,663,457)	(8,077,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes		3,753,015	3,425,443
Issuance costs of senior notes		(48,546)	(42,207)
New bank and other borrowings		16,648,534	8,381,984
Repayment of bank and other borrowings		(9,953,961)	(6,729,895)
Capital contribution from non-controlling shareholders		1,545,511	763,085
Capital reduction of subsidiaries		(44,739)	(48,500)
Advances from non-controlling shareholders		1,546,168	–
Acquisition of non-controlling interests		–	(238,539)
Increase/(decrease) in amounts due to related parties, net		(1,221,088)	139,551
Distribution to holders of perpetual capital instruments		(58,363)	(51,975)
Redemption of perpetual capital instruments		–	(200,000)
Proceeds from issue of shares		–	1,240,221
Share issue expenses		–	(16,915)
Proceeds from exercise of share options		521,479	–
Dividends paid		(592,097)	(624,868)
Dividends paid to non-controlling shareholders of subsidiaries		(505,745)	(404,336)
Net cash flows from financing activities		11,590,168	5,593,049

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		8,145,483	7,211,994
Effect of foreign exchange rate changes, net		161,508	(5,139)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		15,515,314	8,145,483
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	29	15,515,314	8,145,483

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

China SCE Group Holdings Limited (formerly known as “China SCE Property Holdings Limited”) (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The addresses of the principal place of business of the Company in the People’s Republic of China (the “PRC”) and Hong Kong are SCE Tower, No. 2, Lane 1688, Shenchang Road, Hongqiao Business District, Shanghai, China; and Room 2801, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong, respectively.

The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in property development, property investment and property management in the PRC during the year.

In the opinion of the directors, the ultimate holding company of the Company is Newup Holdings Limited, which is incorporated in the British Virgin Islands (the “BVI”).

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Affluent Way International Limited ^{o^}	BVI	US\$1	100	–	Investment holding
South China Group (H.K.) Limited ^{o^}	Hong Kong	HK\$100	–	100	Investment holding
Xiamen Zhongjun Industrial Co., Ltd.** (“Xiamen Zhongjun”) (廈門中駿集團有限公司*)	China	HK\$1,670,000,000	–	100	Investment holding and trading of construction materials
Shanghai Zhongjun Property Co., Ltd.* (上海中駿置業有限公司*)	China	RMB100,000,000	–	100	Investment holding and trading of construction materials
Beijing Dushishengjing Real Estate Development Co., Ltd.* (北京都市聖景房地產開發有限公司*)	China	RMB10,000,000	–	100	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Jinhui Real Estate Development Co., Ltd.** (北京京匯房地產開發有限公司*)	China	RMB100,000,000	–	100	Property development and property investment
Fujian Zhongjun Industrial Co., Ltd.* (福建中駿置業有限公司*)	China	RMB1,000,000,000	–	100	Investment holding, property development and property investment
Shanxi Yuanhong Real Estate Development Co., Ltd.* (山西源宏房地產開發有限公司*)	China	RMB100,000,000	–	70	Property development
Fujian Straits West-Coast Investment Co., Ltd.* ("West-Coast Investment") (福建省海峽西岸投資有限公司*)	China	RMB700,000,000	–	58	Property development and property investment
Quanzhou Puxi Third Property Co., Ltd.*** (泉州市浦西三號置業有限公司*)	China	RMB900,000,000	–	100	Property development and property investment
South Fujian Gold Coast Resort Co., Ltd. Shishi** (石獅市閩南黃金海岸渡假村有限公司*)	China	RMB800,000,000	–	45	Property development and property investment
Shishi Junde Real Estate Development Co., Ltd.* (石獅駿德房地產開發有限公司*)	China	RMB600,000,000	–	60	Property development and property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Pacific Prestige Real Estate Development Limited** (深圳泛亞房地產開發有限公司*)	China	HK\$160,000,000	–	82	Property development
Tianjin Junrun Real Estate Development Co., Ltd.* (天津駿潤房地產開發有限公司*)	China	RMB100,000,000	–	100	Property development
Beijing Junyu Real Estate Development Co., Ltd.* (北京駿宇房地產開發有限公司*)	China	RMB400,000,000	–	100	Property development
Beijing Junda Real Estate Development Co., Ltd.* (北京駿達房地產開發有限公司*)	China	RMB30,000,000	–	100	Property development and property investment
Tianjin Junkun Real Estate Development Co., Ltd.* (天津駿坤房地產開發有限公司*)	China	RMB300,000,000	–	51	Property development
Nanchang Junda Real Estate Development Co., Ltd.* (南昌駿達房地產開發有限公司*)	China	RMB100,000,000	–	100	Property development
Shanghai Junwo Real Estate Development Co., Ltd.**^ (上海駿沃房地產開發有限公司*)	China	RMB480,000,000	–	100	Property development and property investment
Shanghai Heng Zhi Property Co., Ltd.* (上海衡智房地產有限公司*)	China	RMB100,000,000	–	100	Property development
Shanghai Junbo Real Estate Development Co., Ltd.**^ (上海駿博房地產開發有限公司*)	China	RMB209,000,000	–	100	Property development and property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Junming Real Estate Development Co., Ltd.*** (上海駿鳴房地產開發有限公司*)	China	RMB1,100,000,000	–	100	Property development and property investment
Hangzhou Bailu Real Estate Development Co., Ltd.*^ (杭州白鷺房地產開發有限公司*)	China	RMB8,000,000	–	100	Property development
Nan'an Junhong Real Estate Development Co., Ltd.* (南安駿宏房地產開發有限公司*)	China	RMB150,000,000	–	80	Property development and property investment
Jinan Junquan Real Estate Development Co., Ltd.*^ (濟南駿泉房地產開發有限公司*)	China	RMB700,000,000	–	45	Property development
Nanchang Junjie Real Estate Development Co., Ltd.*** (南昌駿捷房地產開發有限公司*)	China	US\$88,790,000	–	90	Property development
Zhangzhou Junfeng Real Estate Development Co., Ltd.* (漳州駿豐房地產開發有限公司*)	China	RMB50,000,000	–	90	Property development
Hangzhou Junjin Industrial Development Co., Ltd.* (杭州駿錦實業發展有限公司*)	China	RMB363,787,500	–	96	Property development and property investment
Xuzhou Junjia Real Estate Development Co., Ltd.*** (徐州駿嘉房地產開發有限公司*)	China	US\$94,024,000	–	96	Property development
Shanghai Zhongjun Chuangfu Real Estate Co., Ltd.*** ("Shanghai Zhongjun Chuangfu") (上海中駿創富房地產有限公司*)	China	RMB1,800,000,000	–	61	Property development and property investment

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shangqiu Zhongyu Property Co., Ltd.* (商丘市中裕置業有限公司*)	China	RMB200,000,000	–	40	Property development
Shanghai Junzhan Real Estate Development Co., Ltd.** (上海駿展房地產開發有限公司*)	China	RMB1,000,000,000	–	100	Property investment
Suzhou Junyuan Real Estate Development Co. Ltd.* (蘇州駿源房地產開發有限公司*)	China	RMB20,000,000	–	95	Property development
Nanjing Junyuan Real Estate Development Co., Ltd.* ("Nanjing Junyuan") (南京駿原房地產開發有限公司*)	China	RMB1,960,000,000	–	50	Property development
Chongqing Junhuigongchuang Real Estate Development Co., Ltd.* (重慶駿匯共創房地產開發有限公司*)	China	RMB15,000,000	–	47	Property development
Songming Zhongjiguoye Real Estate Development Co., Ltd.* ("Songming Zhongji") (嵩明中稷國燁房地產開發有限公司*)	China	RMB150,000,000	–	70	Property development
Qingdao Zhong Yutai Property Development Co., Ltd.*^ ("Qingdao Zhong Yutai") (青島眾裕泰置業有限公司*)	China	RMB52,241,000	–	96	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

- * Registered as limited liability companies under the PRC law
- ** Registered as wholly-foreign-owned entities under the PRC law
- *** Registered as Sino-foreign joint ventures under the PRC law
- # The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as no official English names have been registered.
- ^ At 31 December 2018, the equity interests of these companies were pledged to secure certain bank and other borrowings of RMB7,668,159,000 (2017: RMB3,790,998,000) granted to the Group (note 32(b)).
- ° As at 31 December 2018, the equity interests of these companies were pledged under share mortgage to the holders of the senior notes of US\$350,000,000 at a coupon rate of 10.0% due 2020 issued in July 2015 (the "2015 Senior Notes"); the senior notes of US\$500,000,000 at a coupon rate of 5.875% due 2022 issued in March 2017 and April 2017 (the "2017 Senior Notes"); and the senior notes of US\$600,000,000 at a coupon rate of 7.45% due 2021 issued in April 2018 (the "2018 Senior Notes") (note 33).

During the year, the Group deemed acquired a subsidiary namely, Shanghai Zhongjun Chuangfu. Further details of the acquisition are set out in note 41 to these financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted, to the extent that is relevant to the Group, the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4</i>
	<i>Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and HKAS 40, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

Summary of impact of HKFRS 15 and HKFRS 9 on the consolidated statement of financial position as at 1 January 2018:

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	As previously stated RMB'000	Reclassification under HKFRS 15 RMB'000	Adjustment under HKFRS 15 RMB'000	Reclassification under HKFRS 9 RMB'000	Restated RMB'000
Consolidated statement of financial position (extract)					
Available-for-sale investments	229,541	–	–	(229,541)	–
Deferred tax assets	344,923	–	(17,076)	–	327,847
Prepayments, other receivables and other assets	2,881,509	–	68,303	–	2,949,812
Financial assets at fair value through profit or loss	–	–	–	229,541	229,541
Other payables and accruals	20,136,559	(15,610,834)	–	–	4,525,725
Contract liabilities	–	15,610,834	–	–	15,610,834
Available-for-sale investments revaluation reserve	52,051	–	–	(52,051)	–
Retained profits	9,362,217	–	50,466	52,051	9,464,734
Non-controlling interests	3,399,744	–	761	–	3,400,505

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Note	Measurement Category		Amount		Re- classification RMB'000
		Original (HKAS 39)	New (HKFRS 9)	Original RMB'000	New RMB'000	
Non-current financial assets						
Available-for-sale investments	(i)	Amortised cost	N/A	229,541	–	(229,541)
Current financial assets						
Trade receivables		Amortised cost	Amortised cost	57,634	57,634	–
Financial assets included in prepayments, other receivables and other assets		Amortised cost	Amortised cost	2,158,160	2,158,160	–
Financial assets at fair value through profit or loss	(i)	N/A	FVPL ¹	–	229,541	229,541
Due from related parties		Amortised cost	Amortised cost	3,468,627	3,468,627	–
Restricted cash		Amortised cost	Amortised cost	1,471,342	1,471,342	–
Pledged deposits		Amortised cost	Amortised cost	25,300	25,300	–
Cash and cash equivalents		Amortised cost	Amortised cost	8,145,483	8,145,483	–
Current financial liabilities						
Trade and bills payables		Amortised cost	Amortised cost	3,152,203	3,152,203	–
Financial liabilities included in other payables and accruals		Amortised cost	Amortised cost	4,525,725	4,525,725	–
Interest-bearing bank and other borrowings		Amortised cost	Amortised cost	4,481,209	4,481,209	–
Derivative financial instruments		FVPL ¹	FVPL ¹	40,364	40,364	–
Senior notes and domestic bonds		Amortised cost	Amortised cost	3,477,192	3,477,192	–
Due to related parties		Amortised cost	Amortised cost	1,707,222	1,707,222	–
Non-current financial liabilities						
Interest-bearing bank and other borrowings		Amortised cost	Amortised cost	8,150,246	8,150,246	–
Derivative financial instruments		FVPL ¹	FVPL ¹	149,031	149,031	–
Senior notes and domestic bonds		Amortised cost	Amortised cost	5,414,433	5,414,433	–

¹ FVPL: Financial assets or financial liabilities at fair value through profit or loss

Note:

- (i) The Group has reclassified its unlisted investments of RMB229,541,000 previously classified as available-for-sale investments to financial assets at fair value through profit or loss since the unlisted investments did not pass the contractual cash flow characteristics test for classification at amortised cost under HKFRS 9.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 9 *Financial Instruments* *(Continued)*

(b) Impairment of financial assets

The Group has six types of financial assets that are subject to HKFRS 9's new ECL model:

- Trade receivables;
- Financial assets included in prepayments, other receivables and other assets;
- Due from related parties;
- Restricted cash;
- Pledged deposits; and
- Cash and cash equivalents

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The restatement of the loss allowance for these classes of assets on transition to HKFRS 9 as a result of applying the expected credit risk model was not significant. Therefore, the carrying amount for these classes of assets and the retained profits at 1 January 2018 have not been impacted by the initial application of HKFRS 9. Further details are disclosed in notes 25, 26, 27 and 29 to the financial statements.

(c) Hedge accounting

The requirements related to hedge accounting would better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which more risk management strategies may be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements. The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

HKFRS 9 *Financial Instruments* (Continued)

(d) Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Available-for-sale investments revaluation reserve	
Balance as at 31 December 2017 under HKAS 39	52,051
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(52,051)
Balance as at 1 January 2018 under HKFRS 9	–
Retained profits	
Balance as at 31 December 2017 under HKAS 39	9,362,217
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	52,051
Balance as at 1 January 2018 under HKFRS 9	9,414,268

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in liability account balances between periods. The disclosures are included in notes 6 and 31 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to these financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that were not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	Increase/ (decrease) RMB'000
Assets		
Prepayments, other receivables and other assets	(i)	68,303
Deferred tax assets	(i), (iii)	(17,076)
Total assets		51,227
Liabilities		
Other payables and accruals	(ii)	(15,610,834)
Contract liabilities	(ii)	15,610,834
Total liabilities		–
Equity		
Retained profits	(i), (iii)	50,466
Non-controlling interests	(i), (iii)	761
Total equity		51,227

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Notes	HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Revenue		17,782,886	17,782,886	–
Cost of sales	(i)	(11,636,290)	(11,453,683)	182,607
Gross profit		6,146,596	6,329,203	(182,607)
Selling and marketing expenses	(i)	(398,421)	(722,669)	(324,248)
Profit before tax		6,052,456	5,910,815	141,641
Income tax expense	(iii)	(2,375,633)	(2,340,223)	35,410
Profit for the year		3,676,823	3,570,592	106,231
Attributable to:				
Owners of the parent		3,385,284	3,318,594	66,690
Holders of perpetual capital instruments		58,363	58,363	–
Non-controlling interests	(i)	233,176	193,635	39,541
		3,676,823	3,570,592	106,231
Earnings per share attributable to ordinary equity holders of the parent				
Basic		RMB87.8 cents	RMB86.1 cents	RMB1.7 cents
Diluted		RMB86.0 cents	RMB84.3 cents	RMB1.7 cents

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Consolidated statement of financial position as at 31 December 2018:

	Notes	HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Deferred tax assets	(i)	561,628	614,114	(52,486)
Prepayments, other receivables and other assets	(i)	8,692,689	8,482,745	209,944
Total assets		101,490,775	101,333,317	157,458
Other payables and accruals	(ii)	9,929,465	31,469,391	(21,539,926)
Contract liabilities	(ii)	21,539,926	–	21,539,926
Total liabilities		79,351,368	79,351,368	–
Net assets		22,139,407	21,981,949	157,458
Retained profits	(i), (iii)	12,678,074	12,560,918	117,156
Non-controlling interests	(i), (iii)	5,957,221	5,916,919	40,302
Total equity		22,139,407	21,981,949	157,458

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of the financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Costs of obtaining contracts

Prior to the adoption of HKFRS 15, the Group expensed off the incremental costs of obtaining contracts with customers when incurred. Upon adoption of HKFRS 15, incremental costs incurred directly attributable to obtain a contract with customers, if recoverable, are capitalised and recorded in prepayments, other receivables and other assets. Capitalised incremental costs of obtaining a contract with customers are charged to profit or loss when the relevant contracts are completed.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

(i) Costs of obtaining contracts *(Continued)*

As a result of this change in accounting policy, the effect of the change has led to capitalisation of incremental costs of obtaining a contract with customers paid/payable that are related to property sales contracts amounting to RMB68,303,000; decreased deferred tax assets by RMB17,076,000; increased retained profits by RMB50,466,000; and increased non-controlling interests by RMB761,000 at 1 January 2018.

As at 31 December 2018, the effect of the change has led to capitalisation of incremental costs of obtaining a contract with customers paid/payable that are related to property sales contracts amounting to RMB209,944,000; decreased deferred tax assets by RMB52,486,000; increased retained profits by RMB117,156,000; and increased non-controlling interests by RMB40,302,000.

(ii) Consideration received from customers in advance

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customer in connection with the Group's pre-sales of properties as receipts in advance under other payables and accruals in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

Upon adoption of HKFRS 15, the Group has recognised contract liabilities for the interest on the sales proceeds received from customers with a significant financing component. The Group has elected to apply the practical expedient and has not recognised the effects of a significant financing component with a customer if the time period is one year or less. In addition, reclassifications have been made from other payables and accruals to contract liabilities for the outstanding balance of sales proceeds from customers. The adoption of HKFRS 15 has had no significant impact on the opening retained profits and receipts in advance as at 1 January 2018 and 31 December 2018.

(iii) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax and non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

Amendments to HKAS 40 Transfers of Investment Property

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemption allowed by the standard on lease contracts whose lease term end within 12 months as of the date of initial application. During 2018, the Group has performed an assessment on the impact of adoption of HKFRS 16. The Group has estimated that the adoption of HKFRS 16 does not have significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, financial assets at fair value through profit or loss and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, contract in progress, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either 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 the key management personnel of the entity (or of a parent of the entity); and
 - (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 parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land under finance leases	Over the lease terms
Buildings	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	19% to 25%
Transportation equipment	10% to 25%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Changes in the values of revalued property and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

Service concession arrangement

The Group has entered into a service concession arrangement with a government body in Quanzhou, the PRC, for the operation and management of certain sports and recreation facilities. The transactions related to such service concession arrangement are accounted for by the Group as follows:

Consideration paid by the Group

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public services. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible asset (other than goodwill)" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangement *(Continued)*

Contractual obligations to restore the sports and recreation facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence. The obligations are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible asset (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of an intangible asset recognised in profit or loss in the period is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession represents the right to operate certain sports and recreation facilities and is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Group of 30 years.

Investment properties

Investment properties include both completed investment properties and investment properties under construction.

Completed 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" 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 accounted for as a revaluation in accordance with the policy stated under "Property and equipment and depreciation" above.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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 by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial assets at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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 marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. 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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all 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 enhancements that are integral to the contractual terms.

General approach

ECL are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECL except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECL

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECL

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECL

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECL. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECL with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, amounts due to related parties, interest-bearing bank and other borrowings and senior notes and domestic bonds.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or 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 recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

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 repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement *(Continued)*

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings and domestic bonds are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Senior notes

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement *(Continued)*

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital instruments

Perpetual capital instruments with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required 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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised 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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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 amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer 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.

(a) Sales of properties

Revenue from the sale of properties is recognised at the point in time when the purchasers obtained 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.

(b) Rendering of service

Revenue from provision of management service is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) Land development

Revenue from land development is recognised at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018) *(Continued)*

Revenue from other sources

Rental income and facilities rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties have been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;
- (b) from the rendering of services, when the services have been rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;
- (e) facilities rental income, on a time proportion basis over the lease terms; and
- (f) from the Land Development Contract and the Supplemental Contract (as defined in note 19), upon the transfer of risks and rewards in connection with the land parcel developed and when the amount of revenue can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to a customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract cost (applicable from 1 January 2018)

Other than the costs which are capitalised as properties under development and property and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Land development contract

The Group has entered into a land development contract (the “Land Development Contract”) with the local government of Nan’an City (the “Nan’an Government”), the PRC, to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities on certain land parcels in Nan’an City.

Pursuant to the Supplemental Contract (as defined in note 19), upon completion of the necessary construction and preparation works of each land parcel, the Nan’an Government will pay the Group the construction and other related cost plus a margin. Such amount will be paid by the Nan’an Government upon the related land parcels to be sold by the Nan’an Government through public auction.

Revenue from the Land Development Contract is recognised at a point in time when the Nan’an Government obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable and the amount of revenue can be measured reliably, which occurs upon the completion of related construction and preparation works as well as the sales of the relevant land parcel. The timing of sales of each land parcel by the Nan’an Government is uncertain and out of the control of the Group.

Costs incurred by the Group in connection with the Land Development Contract comprise the aggregate costs of construction, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of development and other costs directly attributable to such Land Development Contract and are classified as “Contract in progress” before the relevant land parcels are sold.

Contract in progress is stated at the lower of cost and net realisable value. Net realisable value takes into account the Group’s revenue derived from the construction and preparation work carry out less costs to completion and the costs to be incurred in realising the revenue based on prevailing market conditions.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“Equity-Settled Transactions”).

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

The cost of Equity-Settled Transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries 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. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the “Pension Scheme”) operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders.

Proposed final dividends are disclosed in the notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollars ("HK\$") while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries, joint ventures and associates operating outside the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for these portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Valuation of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

Allocation of construction cost on properties under development

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

Whether the presumption that investment properties stated at fair value are recovered through sale is rebutted in determining deferred tax

The Group has investment properties located in the PRC which are measured at fair value. Investment property is property held to earn rentals or for capital appreciation or both. In considering whether the presumption in HKAS 12 *Income Taxes* that an investment property measured at fair value will be recovered through sale is rebutted in determining deferred tax, the Group has developed certain criteria in making that judgement, such as whether an investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time or through sale. The presumption is rebutted only in the circumstance that there is sufficient evidence such as historical transaction, future development plan and management's intention to demonstrate that the investment property is held with the objective to consume substantially all of the economic benefits over time, rather than through sale. Continuous assessments on the presumption will be made by management at each reporting date.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls certain entities, even though it owns less than 50% of the voting rights of these entities, because the Group is entitled to appoint a majority of directors in the board of directors and accordingly, the Group is able to control and direct the financing and operating activities of these entities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction, were revalued at each reporting date during the year based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, 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 each reporting date.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the businesses of property development, property investment, property management, land development and project management. For management purposes, the property development and property investment businesses are monitored as one operating segment on a project basis to allocate resources and assess performance. For financial reporting purposes, the property management segment, land development segment and project management segment are combined with the property development and investment segment as its reported revenue, reported results and assets are less than 10% of the consolidated revenue, consolidated profit and consolidated assets of the Group.

The Group's revenue from external customers from each product or service is set out in note 6 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

During the years ended 31 December 2018 and 31 December 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sales of properties	17,224,700	15,573,839
Property management fees	336,678	270,295
Land development income	—	85,691
Project management income	90,546	51,921
Revenue from other sources		
Gross rental income	130,962	123,499
	17,782,886	16,105,245

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	Sales of properties RMB'000	Property management fees RMB'000	Land development income RMB'000	Project management income RMB'000	Total RMB'000
Timing of revenue recognition:					
Goods transferred at a point in time	17,224,700	–	–	–	17,224,700
Services transferred over time	–	336,678	–	90,546	427,224
Total revenue from contracts with customers	17,224,700	336,678	–	90,546	17,651,924
					2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:					
Sales of properties					12,384,485

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of properties

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Property management fees and Project management income

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Management service contracts are for periods of one year or less, or are billed based on the time incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Land development income

The performance obligation is satisfied when the development of the relevant land is completed.

	2018 RMB'000	2017 RMB'000
Other income and gains		
Bank interest income	87,924	41,085
Forfeiture income on deposits received	6,668	17,061
Gain on disposal of items of property and equipment, net	11,190	1,601
Gain on deemed disposal of a subsidiary upon loss of control (note 43)	–	20,903
Fair value gain of derivative financial instruments		
— transactions not qualifying as hedges	166,338	–
Fair value gain on remeasurement of investment in an associate	21,097	–
Others	93,420	42,162
	386,637	122,812

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings, senior notes and domestic bonds	2,133,590	1,567,441
Increase in a discounted amount of provision for major overhauls arising from the passage of time (note 35)	2,044	1,741
Total interest expense on financial liabilities not at fair value through profit or loss	2,135,634	1,569,182
Less: Interest capitalised	(1,733,948)	(1,177,134)
	401,686	392,048

NOTES TO FINANCIAL STATEMENTS

31 December 2018

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Cost of properties sold		11,298,108	10,342,470
Cost of services provided		338,012	277,427
Depreciation	14	33,065	21,580
Amortisation of land lease payments	16	8,281	17,271
Amortisation of an intangible asset*	17	170	164
Provision for major overhauls	35	5,228	5,003
Minimum lease payments under operating leases for land and buildings		37,040	15,409
Direct operating expenses (including repairs and maintenance) arising from rental-generating investment properties		434	441
Auditor's remuneration		4,250	3,600
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and other staff costs		897,123	494,570
Equity-settled share option expense		17,537	53,965
Pension scheme contributions		143,173	64,035
Less: Amount capitalised		(429,402)	(143,260)
		628,431	469,310
Foreign exchange losses, net		78,141	135,081
Fair value gain of derivative financial instruments — transactions not qualifying as hedges		(166,338)	—
Fair value loss of derivative financial instruments — transactions not qualifying as hedges**		—	332,561
Fair value loss of financial assets at fair value through profit or loss		39,285	—
Fair value gain on remeasurement of investment in an associate		(21,097)	—
Loss on deemed acquisition of subsidiaries, net	41	26,983	—
Write down to net realisable value of completed properties held for sale		—	66,698
Loss on disposal of investment properties, net		11,988	10,171
Gain on disposal of items of property and equipment, net	6	(11,190)	(1,601)

* The amortisation of an intangible asset for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** The item was included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	852	717
Other emoluments:		
Salaries, allowances and benefits in kind	6,656	6,586
Discretionary performance related bonuses	7,829	8,039
Equity-settled share option expense	3,297	6,635
Pension scheme contributions	99	97
	17,881	21,357
	18,733	22,074

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	284	-	-	-	-	284
Mr. Lu Hong Te	284	-	-	-	-	284
Mr. Dai Yiyi	284	-	-	-	-	284
	852	-	-	-	-	852

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017						
Independent non-executive directors:						
Mr. Ting Leung Huel Stephen	239	-	-	-	-	239
Mr. Lu Hong Te	239	-	-	-	-	239
Mr. Dai Yiyi	239	-	-	-	-	239
	717	-	-	-	-	717

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Salaries, allowances and benefits		Discretionary performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total
	Fees RMB'000	in kind RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018						
Executive directors:						
Mr. Wong Chiu Yeung ("Mr. Wong")	-	1,571	2,356	-	15	3,942
Mr. Chen Yuanlai	-	1,277	1,490	773	15	3,555
Mr. Cheng Hiu Lok	-	1,277	1,490	773	15	3,555
Mr. Huang Youquan	-	1,315	1,277	1,751	39	4,382
Mr. Wong Lun*	-	1,216	1,216	-	15	2,447
	-	6,656	7,829	3,297	99	17,881

	Salaries, allowances and benefits		Discretionary performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total
	Fees RMB'000	in kind RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017						
Executive directors:						
Mr. Wong	-	1,613	2,419	-	16	4,048
Mr. Chen Yuanlai	-	1,311	1,530	-	16	2,857
Mr. Cheng Hiu Lok	-	1,311	1,530	-	16	2,857
Mr. Huang Youquan	-	1,310	1,311	6,635	36	9,292
Mr. Wong Lun*	-	1,041	1,249	-	13	2,303
	-	6,586	8,039	6,635	97	21,357

* Mr. Wong Lun was appointed as an executive director of the Company with effect from 1 March 2017.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: five) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2017: Nil) non-director, highest paid individual for the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	4,816	–
Discretionary performance related bonuses	1,800	–
Equity-settled share option expense	5,077	–
Pension scheme contributions	143	–
	11,836	–

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2018
HK\$4,000,001 to HK\$4,500,000	1
HK\$4,500,001 to HK\$5,000,000	2
	3

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

	2018 RMB'000	2017 RMB'000
Current charge for the year:		
PRC corporate income tax ("CIT")	1,294,115	1,232,289
PRC land appreciation tax ("LAT")	981,564	645,488
Under/(over)-provision in prior years, net:		
Mainland China	61,056	(3,967)
	2,336,735	1,873,810
Deferred (note 34)	38,898	138,281
Total tax charge for the year	2,375,633	2,012,091

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	6,052,456	5,460,642
At the statutory/applicable rates of different jurisdictions	1,674,725	1,483,303
Lower tax rates for specific cities	(60,149)	(66,202)
Adjustments in respect of current tax of previous periods	61,056	(3,967)
Profits and losses attributable to joint ventures and associates	(133,873)	(202,120)
Income not subject to tax	(21,890)	(10,898)
Expenses not deductible for tax	192,339	348,592
Tax effect on unrealised profits arising from transactions within the Group	(72,748)	(22,873)
LAT	981,564	645,488
Tax effect of LAT deductible for PRC CIT	(245,391)	(159,232)
Tax charge at the Group's effective rate	2,375,633	2,012,091

The share of tax charge for the year ended 31 December 2018 attributable to joint ventures amounted to RMB213,670,000 (2017: RMB203,465,000). The share of tax charge for the year ended 31 December 2018 attributable to associates amounted to RMB9,606,000 (2017: tax credit of RMB523,000). Both are included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

12. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim — HK7 cents (2017: HK6 cents) per ordinary share	225,993	195,429
Proposed final — HK14 cents (2017: HK13 cents) per ordinary share	507,589	413,984
	733,582	609,413

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 3,855,128,016 (2017: 3,553,155,068) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to owners of the parent used in the basic and diluted earnings per share calculations	3,385,284	2,840,035
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	3,855,128,016	3,553,155,068
Effect of dilution — weighted average number of ordinary shares:		
Share options	81,613,520	69,174,117
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	3,936,741,536	3,622,329,185

NOTES TO FINANCIAL STATEMENTS

31 December 2018

14. PROPERTY AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018:					
Cost	49,656	51,407	67,927	100,383	269,373
Accumulated depreciation	(8,428)	(36,148)	(32,928)	(86,975)	(164,479)
Net carrying value	41,228	15,259	34,999	13,408	104,894
At 1 January 2018, net of accumulated depreciation					
At 1 January 2018, net of accumulated depreciation	41,228	15,259	34,999	13,408	104,894
Additions	558,982	15,394	42,260	2,550	619,186
Acquisition of subsidiaries that are not a business (note 42)	-	-	5	-	5
Depreciation	(6,908)	(6,189)	(18,024)	(1,944)	(33,065)
Disposals	(9,076)	(1,217)	(661)	(62)	(11,016)
Deemed acquisition of subsidiaries (note 41)	-	-	607	173	780
At 31 December 2018, net of accumulated depreciation	584,226	23,247	59,186	14,125	680,784
At 31 December 2018:					
Cost	597,246	65,584	106,803	104,456	874,089
Accumulated depreciation	(13,020)	(42,337)	(47,617)	(90,331)	(193,305)
Net carrying value	584,226	23,247	59,186	14,125	680,784

NOTES TO FINANCIAL STATEMENTS

31 December 2018

14. PROPERTY AND EQUIPMENT (Continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Transportation equipment RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017:					
Cost	92,722	40,256	44,571	97,872	275,421
Accumulated depreciation	(18,561)	(32,383)	(30,693)	(84,754)	(166,391)
Net carrying value	74,161	7,873	13,878	13,118	109,030
At 1 January 2017, net of accumulated depreciation	74,161	7,873	13,878	13,118	109,030
Additions	3,585	11,151	28,361	8,118	51,215
Acquisition of subsidiaries that are not a business (note 42)	–	–	248	530	778
Surplus on revaluation at date of transfer to investment properties	82,872	–	–	–	82,872
Depreciation	(2,596)	(3,765)	(6,895)	(8,324)	(21,580)
Disposals	(1,002)	–	(509)	(34)	(1,545)
Deemed disposal of a subsidiary upon loss of control (note 43)	–	–	(84)	–	(84)
Transfer to investment properties (note 15)	(115,792)	–	–	–	(115,792)
At 31 December 2017, net of accumulated depreciation	41,228	15,259	34,999	13,408	104,894
At 31 December 2018:					
Cost	49,656	51,407	67,927	100,383	269,373
Accumulated depreciation	(8,428)	(36,148)	(32,928)	(86,975)	(164,479)
Net carrying value	41,228	15,259	34,999	13,408	104,894

At 31 December 2018, certain of the Group's buildings with an aggregate carrying amount of RMB19,938,000 (2017: RMB30,568,000) were pledged to banks to secure certain bank and other borrowings granted to the Group (note 46).

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15. INVESTMENT PROPERTIES

	Completed	Under construction	Total
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January 2017	6,123,400	1,306,000	7,429,400
Additions	8,122	522,022	530,144
Disposals*	(293,842)	–	(293,842)
Transfer from properties under development	–	447,156	447,156
Transfer from completed properties held for sale	760,324	–	760,324
Transfer from property and equipment (note 14)	115,792	–	115,792
Net gain from a fair value adjustment	633,522	629,222	1,262,744
Carrying amount at 31 December 2017 and 1 January 2018	7,347,318	2,904,400	10,251,718
Additions	138,714	642,353	781,067
Disposals	(189,505)	–	(189,505)
Transfer from properties under development	–	2,004,480	2,004,480
Transfer from investment properties under construction to completed investment properties	2,906,321	(2,906,321)	–
Deemed acquisition of subsidiaries (note 41)	6,340,000	–	6,340,000
Net gain from a fair value adjustment	976,152	106,388	1,082,540
Carrying amount at 31 December 2018	17,519,000	2,751,300	20,270,300

* Investment properties with an aggregate carrying amount of RMB275,860,000 were disposed in 2017 as part of the consideration for the acquisition of the non-controlling interest.

All of the Group's investment properties are situated in Mainland China.

The Group's investment properties were revalued on 31 December 2018 based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, at RMB20,270,300,000 (2017: RMB10,251,718,000).

At 31 December 2018, the Group's investment properties with an aggregate carrying amount of RMB16,148,278,000 (2017: RMB5,771,766,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

The Group's completed investment properties are leased to third parties and companies controlled by Mr. Wong and his family members (together with Mr. Wong, the "Wong Family") under operating leases, further summary details of which are included in note 47(a).

NOTES TO FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

For the years ended 31 December 2018 and 31 December 2017, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

In the opinion of the directors, for all investment properties that are measured at fair value, the properties have been used in their highest and best use.

The following table illustrates the fair value measurement of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2018 RMB'000	2017 RMB'000
Recurring fair value measurement for:		
Office properties	10,743,000	3,343,992
Commercial properties	8,852,917	6,413,726
Car parking spaces	674,383	494,000
	20,270,300	10,251,718

During the year, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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15. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation techniques	Significant unobservable inputs	Range (weighted average)		
		2018	2017	
Office properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	52 to 237	42 to 220
		Capitalisation rate	5% to 6%	4% to 6%
		Price per square metre (RMB)	8,500 to 71,600	8,000 to 38,500
Commercial properties	Investment method and direct comparison method (refer below)	Estimated rental value per square metre and per month (RMB)	67 to 638	34 to 605
		Capitalisation rate	4.5% to 6%	4% to 6.5%
		Price per square metre (RMB)	10,900 to 93,500	6,500 to 96,000
Car parking spaces	Investment method and direct comparison method (refer below)	Estimated rental value per car parking space and per month (RMB)	650 to 1,500	650 to 1,800
		Capitalisation rate	3.5% to 5%	4% to 6%
		Price per car parking space (RMB)	100,000 to 453,000	150,000 to 350,000

The valuations of completed investment properties and investment properties under construction were based on either the investment method by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties or the direct comparison method by reference to comparable market transactions.

Significant increases (decreases) in estimated rental value per square metre or per car parking space or price per square metre in isolation would result in a significantly higher (lower) fair value of the investment properties. Significant increases (decreases) in the capitalisation rate in isolation would result in a significantly lower (higher) fair value of the investment properties.

Generally, a change in the assumption made for the estimated rental value per square metre and the price per square metre is accompanied by a directionally similar change in the development profit and an opposite change in the capitalisation rate.

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16. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	5,427,646	7,350,320
Additions	6,422,996	6,626,250
Acquisition of subsidiaries that are not a business (note 42)	1,034,767	3,241,060
Transfer to properties under development	(9,289,086)	(12,557,328)
Transfer from prepayments and deposits	1,448,979	784,615
Recognised during the year	(8,281)	(17,271)
Carrying amount at 31 December	5,037,021	5,427,646
Current portion included in prepayments, other receivables and other assets	(8,955)	(13,149)
Non-current portion	5,028,066	5,414,497

At 31 December 2018, certain of the Group's leasehold land with an aggregate carrying amount of RMB2,400,597,000 (2017: RMB1,004,198,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

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17. INTANGIBLE ASSET

Operating concession

	2018 RMB'000	2017 RMB'000
Cost at 1 January, net of accumulated amortisation	3,489	3,653
Amortisation provided during the year	(170)	(164)
At 31 December	3,319	3,489
At 31 December:		
Cost	4,861	4,861
Accumulated amortisation	(1,542)	(1,372)
Net carrying amount	3,319	3,489

On 28 March 2006, Quanzhou Straits Sports Centre Co., Ltd. ("Straits Sports Centre"), a subsidiary of the Group, entered into an operating right concession agreement (the "Operating Right Agreement") with the Quanzhou Sports Bureau (the "Sports Bureau"), a local government body in Quanzhou, the PRC, at a cash consideration of RMB5,000,000. Pursuant to the Operating Right Agreement, Straits Sports Centre is granted with an operating concession (the "Operating Concession") to operate and manage certain sports and recreation facilities (the "Facilities") in Quanzhou for a period of 30 years (the "Operating Period").

This service concession arrangement involves the Group as operator (i) paying a specified amount as consideration to obtain the Operating Concession of the Facilities; (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the Sports Bureau for the Operating Period; and (iii) receiving a right to charge users using the Facilities. The Group is entitled to operate and manage the Facilities, and is entitled to all the income associated with the operation of the Facilities. However, the relevant government bodies as grantors will control and regulate the scope of services provided and the prices charged by the Group during the Operating Period, retain ownership, and be entitled to any residual interest in the Facilities at the end of the Operating Period.

The cost of the Operating Concession is being amortised over the Operating Period.

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18. PROPERTIES UNDER DEVELOPMENT

	2018 RMB'000	2017 RMB'000
Properties under development expected to be completed:		
Within normal operating cycle included under current assets	28,101,140	21,740,001
Beyond normal operating cycle included under non-current assets	2,730,414	1,524,085
	30,831,554	23,264,086
Properties under development expected to be completed within normal operating cycle and recovered:		
Within one year	13,944,927	6,972,616
After one year	14,156,213	14,767,385
	28,101,140	21,740,001

At 31 December 2018, certain of the Group's properties under development, including the relevant land use rights, with an aggregate carrying amount of RMB18,029,459,000 (2017: RMB12,162,467,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

19. CONTRACT IN PROGRESS

	2018 RMB'000	2017 RMB'000
At 1 January	340,667	366,824
Additions	3,882	51,829
Transfer to properties under development	(17,642)	(49,195)
Disposal	-	(28,791)
At 31 December	326,907	340,667

On 18 August 2009, the Group entered into the Land Development Contract with the Nan'an Government to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City. Pursuant to the Land Development Contract, although the Group does not have the ownership title or land use right to such land parcels, when the land parcels are sold by the Nan'an Government through public auctions, the Group is entitled to the sales proceeds arising from such land sales.

Contract in progress represents costs incurred by the Group in connection with the construction and preparation works of the relevant land parcels under the Land Development Contract and comprises relocation and demolition work, costs of construction, materials and supplies, capitalised borrowing costs on related borrowed funds during the period of development and other costs directly attributable to the Land Development Contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

19. CONTRACT IN PROGRESS (Continued)

On 22 February 2016, the Group entered into a supplemental Land Development Contract (the "Supplemental Contract") with the Nan'an Government, pursuant to which certain terms and conditions of the Land Development Contract were revised. In accordance with the Supplemental Contract, the Group continues to carry out the construction and preparation works in respect of land infrastructure and ancillary public facilities over certain land parcels in Nan'an City. Nan'an Government will pay the Group the construction and other related costs plus a margin. Such amount will be determined and paid by the Nan'an Government upon the related land parcels to be sold by the Nan'an Government through public auction.

20. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	2,872,986	3,320,807
Due from joint ventures	2,822,745	–
Due to joint ventures	(11,913)	(11,913)
	5,683,818	3,308,894

The amounts due from/(to) joint ventures are unsecured, interest-free and repayable on demand. In accordance with the terms of the joint venture agreements, all joint venture partners are required to provide loan capital to the joint ventures in proportion to their shareholdings under equal terms. Repayment of any amount of the loan capital requires unanimous approval from the joint venture partners subject to the sufficiency of assets and retained profits of the joint ventures. Accordingly, the loan capital forms an integral part of the Group's equity investments in the joint ventures.

Particulars of the Group's material joint ventures are as follows:

Name	Nominal value of registered/paid-up capital	Place of incorporation/registration and business	Percentage of beneficial interest attributable to the Group	Principal activities
Shanghai Zhongjun Chuangfu Real Estate Co., Ltd. ** (上海中駿創富房地產有限公司*)	Registered capital of RMB1,800,000,000	China	N/A ⁽¹⁾	Property development and property investment
Wuxi Meishangjun Property Development Co., Ltd.* ("Wuxi Meishangjun") (無錫市美商駿房地產發展有限公司*)	Registered capital of RMB1,200,000,000	China	32	Property development
Cangluan (Xiamen) Real Estate Co., Ltd.* ("Xiamen Cangluan") (滄鑾(廈門)置業有限公司*)	Registered capital of RMB1,455,000,000	China	24	Property development
Nanjing Junyi Property Development Co., Ltd.* ("Nanjing Junyi") (南京駿益房地產開發有限公司*)	Registered capital of RMB500,000,000	China	49	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. INVESTMENTS IN JOINT VENTURES (Continued)

- * Registered as limited liability companies under the PRC law
 ** Registered as Sino-foreign joint venture under the PRC law
 # The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as no official English names are registered.
 (1) As a result of gaining an effective control by the Group over the board of directors of Cheer Rich Investments Limited ("Cheer Rich"), which holds 70% interest in Shanghai Zhongjun Chuangfu, it became a non-wholly owned subsidiary of the Group. Further details of this transaction are set out in notes 20(b) and 41 to these financial statements.

The above investments are held indirectly by subsidiaries of the Company.

Notes:

The following tables illustrate the summarised financial information in respect of Wuxi Meishangjun, Xiamen Cangluan, Nanjing Junyi and Shanghai Zhongjun Chuangfu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

- (a) In the opinion of the directors, Nanjing Junyi is not considered as material joint venture of the Group for the year ended 31 December 2017 and thus, summarised financial information of Nanjing Junyi for the year ended 31 December 2017 is not presented in these financial statements.

Wuxi Meishangjun and Xiamen Cangluan were incorporated during the year and thus, there are no summarised financial information of Wuxi Meishangjun and Xiamen Cangluan for the year ended 31 December 2017.

SUMMARISED FINANCIAL INFORMATION IN RESPECT OF WUXI MEISHANGJUN, XIAMEN CANGLUAN AND NANJING JUNYI

	Wuxi Meishangjun RMB'000	2018 Xiamen Cangluan RMB'000	Nanjing Junyi RMB'000
Cash and cash equivalents	5,632	19,336	30,312
Other current assets	2,267,439	3,192,424	2,338,691
Current assets	2,273,071	3,211,760	2,369,003
Non-current assets	611	14	2,804
Other current liabilities	(1,075,621)	(1,837,194)	(1,882,240)
Current liabilities	(1,075,621)	(1,837,194)	(1,882,240)
Net assets	1,198,061	1,374,580	489,567
Reconciliation to the Group's directly held interest in the joint venture:			
Proportion of the Group's ownership	32%	24%	49%
Share of net assets	386,375	335,398	238,566
Due from joint ventures	203,976	246,270	259,280
Carrying amount of the investment	590,351	581,668	497,846
Bank interest income	32	–	47
Depreciation	–	–	(227)
Tax expense	581	–	1,771
Loss and total comprehensive loss for the year	(1,939)	(80,420)	(8,132)

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20. INVESTMENTS IN JOINT VENTURES (Continued)

Notes: (Continued)

(b) SUMMARISED FINANCIAL INFORMATION IN RESPECT OF SHANGHAI ZHONGJUN CHUANGFU

	2017 RMB'000
Cash and cash equivalents	53,724
Other current assets	3,044,343
Current assets	3,098,067
Non-current assets	4,064,943
Other current liabilities	(1,839,578)
Current liabilities	(1,839,578)
Non-current financial liabilities	(1,210,477)
Non-current liabilities	(1,210,477)
Net assets	4,112,955
Reconciliation to the Group's directly held interest in the joint venture (note):	
Proportion of the Group's ownership	30%
Carrying amount of the investment	1,233,886
Revenue	206,446
Bank interest income	8,066
Depreciation	(716)
Tax expense	(94,280)
Profit and total comprehensive income for the year	1,056,694

Note: In addition to a directly held 30% interest, the Group indirectly held an additional 26% interest through a joint venture, Cheer Rich. As a result of gaining control by the Group over Cheer Rich in 2018, Shanghai Zhongjun Chuangfu now became a non-wholly owned subsidiary and was consolidated into the Group's financial statements. Accordingly, no summarised financial information in respect of Shanghai Zhongjun Chuangfu was presented for the year ended 31 December 2018.

(c) The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' profit for the year, net	537,485	519,465
Share of the joint ventures' other comprehensive income/(loss)	(13,837)	46,017
Share of the joint ventures' total comprehensive income	523,648	565,482
Aggregate carrying amount of the Group's investments in the joint ventures	4,013,953	2,086,921

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21. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	66,734	115,265
Due from associates	88,338	–
	155,072	115,265

The amounts due from associates are unsecured, interest-free and repayable on demand. In accordance with the terms of the shareholder agreements, all shareholders to the associate are required to provide loan capital to the associate in proportion to their shareholdings under equal terms. Repayment of any amount of the loan capital requires unanimous approval from the shareholders subject to the sufficiency of assets and retained profits of the associates. Accordingly, the loan capital forms an integral part of the Group's equity investments in the associates.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' income/(loss) for the year	22,217	(6,062)
Share of the associates' other comprehensive income/(loss)	(28)	157
Share of the associates' total comprehensive income/(loss)	22,189	(5,905)
Aggregate carrying amount of the Group's investments in the associates	155,072	115,265

NOTES TO FINANCIAL STATEMENTS

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22. AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Unlisted equity investments, at fair value	–	229,541

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB52,051,000.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Capped forward cross currency swap contracts classified as:		
Current liabilities	26,739	40,364
Non-current liabilities	–	149,031
	26,739	189,395

The Group entered into various capped forward cross currency swap contracts with a bank to manage its exchange rate exposures.

These capped forward cross currency swap contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB166,338,000 were credited to profit or loss during the year (2017: charge of RMB332,561,000).

24. COMPLETED PROPERTIES HELD FOR SALE

All the completed properties held for sale are stated at the lower of cost and net realisable value.

At 31 December 2018, certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB304,098,000 (2017: RMB503,085,000) were pledged to secure certain bank and other borrowings granted to the Group (note 46).

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25. TRADE RECEIVABLES

The Group's trade receivables arise from the sales of properties, leasing of investment properties and provision of property management services.

Consideration in respect of the sales of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services. The Group generally grants a rent-free period of three months to the lessees of the Group's investment properties, extending up to six months for major customers.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. All trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date and invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Current to 90 days	393,387	33,228
91 to 180 days	287	18,022
181 to 365 days	9	5,037
Over 365 days	8,102	1,347
	401,785	57,634

Impairment under HKFRS 9 for the year ended 31 December 2018

The financial impact of ECL for trade receivables under HKFRS 9 is insignificant for the year ended 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

25. TRADE RECEIVABLES *(Continued)*

Impairment under HKAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	57,632
1 to 6 months past due	2
	57,634

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of diversified customers with no recent history of default and had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments (note (a))	5,267,019	3,671,864
Deposits	559,556	642,150
Other receivables	2,656,170	1,516,010
Cost of obtaining contracts	209,944	–
	8,692,689	5,830,024
Non-current portion	(3,836,906)	(2,948,515)
Current portion	4,855,783	2,881,509

Note:

- (a) The balances included prepayments for the acquisition of land use rights in Mainland China amounting to RMB2,235,333,000 as at 31 December 2018 (2017: RMB1,490,982,000).

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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27. BALANCES WITH RELATED PARTIES

An analysis of the balances with related parties is as follows:

	2018 RMB'000	2017 RMB'000
Due from related parties:		
Companies controlled by the Wong Family	60,031	–
Joint ventures	3,882,612	3,324,752
Associates	66,850	143,875
	4,009,493	3,468,627
Due to related parties:		
Companies controlled by the Wong Family	1,334	552
Joint ventures	1,198,759	1,632,899
Associates	45,922	73,771
	1,246,015	1,707,222

The balances are non-trade in nature, unsecured, interest-free and are repayable on demand.

None of the amounts due from related parties is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Listed equity investments, at fair value	65,053	–
Other unlisted investments, at fair value	577,387	–
	642,440	–

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

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29. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	19,972,815	9,642,125
Less: Restricted cash (notes)	(4,409,592)	(1,471,342)
Pledged deposits (note (e))	(47,909)	(25,300)
Cash and cash equivalents	15,515,314	8,145,483

Notes:

- (a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales 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 for the relevant property projects. As at 31 December 2018, such guarantee deposits amounted to RMB2,214,106,000 (2017: RMB848,590,000).
- (b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. These guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2018, such deposits amounted to RMB528,296,000 (2017: RMB57,422,000).
- (c) Pursuant to a management agreement entered into between the Sports Bureau and Straits Sports Centre, the funds advanced by the Sports Bureau that are deposited in a designated bank account can only be used for payments of construction costs and expenditures incurred for the construction of the Facilities. As at 31 December 2018, such advance amounted to RMB6,000,000 (2017: RMB6,000,000).
- (d) In addition to the restrictions as detailed in notes (a), (b) and (c) above, certain subsidiaries of the Group are also required to place certain of their bank deposit amounts as guarantee deposits for public maintenance funds, or there are restrictions as to the use of certain unutilised bank loan proceeds and proceeds from the perpetual capital instruments (note 39) deposited in the subsidiaries' bank accounts. As at 31 December 2018, the aggregate amount of such deposits amounted to RMB1,661,190,000 (2017: RMB559,330,000).
- (e) The bank deposits were pledged to secure general banking facilities and bills payable granted to the Group (note 46).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB16,880,927,000 (2017: RMB8,447,052,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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30. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	8,208,575	3,014,497
Over 1 year	138,558	137,706
	8,347,133	3,152,203

The trade and bills payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

31. OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

	2018 RMB'000	2017 RMB'000
Receipts in advances (note (a))	–	15,610,834
Contract liabilities (note (b))	21,539,926	–
Deposits received	362,829	422,682
Accruals	391,923	219,598
Advances from non-controlling shareholders (note (c))	3,510,702	1,964,534
Proceeds from securitisation arrangement (note (d))	1,052,870	–
Other payables (note (e))	4,611,141	1,918,911
	31,469,391	20,136,559

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31. OTHER PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES (Continued)

Notes:

- (a) Receipts in advance represent sales proceeds received from buyers in connection with the Group's pre-sales of properties, which was reclassified to contract liabilities under HKFRS 15.
- (b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Advances received from customers:		
Sales of properties	21,539,926	15,610,834

Contract liabilities include advances received from buyers in connection with the Group's pre-sales of properties. The net increase in contract liabilities in 2018 was mainly due to the increase in advances received from customers in relation to the sales of properties at the end of the year, offset by the decrease in advances received from customers upon recognition of revenue in the current year when the purchasers obtained the physical possession or the legal title of the relevant properties.

- (c) Advances from non-controlling shareholders are unsecured, interest-free and repayable on demand.
- (d) The balance represented proceeds received from a financial institution in the PRC, to which the Group has transferred the right of receipt of the remaining sale proceeds of certain properties to be delivered by the Group. Under an assignment arrangement between the Group and the financial institution, as and when the Group receives the sale proceeds from customers, the Group would remit any cash flows it collects on behalf of the financial institution.
- (e) Other payables are non-interest-bearing and are expected to be settled within one year.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Contractual interest rate (%) per annum	Maturity	RMB'000	Contractual interest rate (%) per annum	Maturity	RMB'000
Current						
Bank loans — secured	2.85–8.70	2019	8,466,376	4.35–5.94	2018	2,517,312
Bank loans — unsecured	4.02	2019	238,347	3.06	2018	225,897
Other loans — secured	5.70–8.75	2019	1,832,658	4.75–8.00	2018	1,738,000
			<u>10,537,381</u>			<u>4,481,209</u>
Non-current						
Bank loans — secured	4.52–7.84	2020-2033	6,819,304	4.35–5.94	2019–2027	4,076,546
Other loans — secured	6.43–8.75	2020-2021	2,775,316	5.70–8.75	2019–2020	4,073,700
			<u>9,594,620</u>			<u>8,150,246</u>
			<u>20,132,001</u>			<u>12,631,455</u>

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	8,704,723	2,743,209
In the second year	2,327,463	3,151,071
In the third to fifth years, inclusive	4,233,089	846,755
Beyond fifth years	258,752	78,720
	15,524,027	6,819,755
Other borrowings repayable:		
Within one year	1,832,658	1,738,000
In the second year	650,000	3,363,700
In the third to fifth years, inclusive	2,125,316	710,000
	4,607,974	5,811,700
	20,132,001	12,631,455

Notes:

- (a) Certain of the Group's bank and other borrowings are secured by the Group's bank deposits, property and equipment, investment properties, prepaid land lease payments, properties under development and completed properties held for sale, details of which are disclosed in note 46 to the financial statements.
- (b) As at 31 December 2018, certain of the Group's bank and other borrowings with an aggregate amount of RMB7,668,159,000 (2017: RMB3,790,998,000) were secured by share charges in respect of the equity interests of certain subsidiaries of the Group, details of which are set out in note 1 to the financial statements.
- (c) Except for certain bank and other borrowings of RMB2,737,042,000 (2017: Nil) and RMB2,334,776,000 (2017: RMB2,527,195,000) as at 31 December 2018 which were denominated in HK\$ and United States dollars ("US\$"), respectively, all of the Group's bank and other borrowings were denominated in RMB.
- (d) At the end of the reporting period, except for certain bank and other borrowings of RMB5,915,320,000 (2017: RMB5,195,760,000) with fixed interest rates, all of the Group's bank and other borrowings bear interest at floating interest rates.
- (e) As at 31 December 2018, the Group's bank and other borrowings of RMB4,833,471,000 (2017: RMB2,301,298,000) were secured by a specific performance obligation imposed on the Wong Family and pursuant to which (i) the Wong Family must remain the single largest shareholder in the Company; (ii) the Wong Family must hold legally and beneficially and directly or indirectly 40% or more of all classes of the Company's voting share capital and/or must directly or indirectly control the Company; and (iii) Mr. Wong or a member of the Wong Family must remain to be the chairman of the Board of the Company.

NOTES TO FINANCIAL STATEMENTS

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33. SENIOR NOTES AND DOMESTIC BONDS

	2018				2017			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2015 Senior Notes	US\$350	10.00	2020	2,363,010	US\$350	10.00	2020	2,229,024
2017 Senior Notes	US\$500	5.875	2022	3,370,234	US\$500	5.875	2022	3,185,409
2018 Senior Notes	US\$600	7.45	2021	4,043,674	-	-	-	-
Domestic Bonds	RMB3,444	7.6	2020	3,428,726	RMB3,500	5.18-5.30	2020	3,477,192
				13,205,644				8,891,625
Non-current portion				(13,205,644)				(5,414,433)
Current portion				-				3,477,192

(a) Senior Notes

The Company, at its option, can redeem all or a portion of the 2015 Senior Notes, the 2017 Senior Notes and the 2018 Senior Notes at any time prior to the maturity date at the redemption prices (principal amount plus applicable premium) plus accrued and unpaid interest up to the redemption date, as set forth in the written agreements between the Company and the trustees of the 2015 Senior Notes, the 2017 Senior Notes and the 2018 Senior Notes.

The 2015 Senior Notes, the 2017 Senior Notes and the 2018 Senior Notes are secured by pledges over the equity interests of certain subsidiaries of the Company (note 1).

In March and April 2017, the Group issued senior notes at coupon rate of 5.875% due 2022 with aggregate principal amounts of US\$500,000,000. The Group raised net proceeds of US\$492,272,000 (after deduction of underwriting discount and commissions and other expenses).

In April 2018, the Group issued senior notes at coupon rate of 7.45% due 2021 with aggregate principal amounts of US\$600,000,000. The Group raised net proceeds of US\$592,238,000 (after deduction of underwriting discount and commissions and other expenses).

The fair values of the early redemption options of the 2015 Senior Notes, the 2017 Senior Notes and the 2018 Senior Notes were not significant and were therefore not recognised by the Group on inception and at 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

33. SENIOR NOTES AND DOMESTIC BONDS *(Continued)*

(b) Domestic Bonds

At the end of the third year subsequent to the inception date in October 2015 and December 2015, Xiamen Zhongjun as the issuer is entitled to adjust the interest rate, and the holders of Domestic Bonds may at their options to sell back the bonds to Xiamen Zhongjun in whole or in part at their principal amounts. In light of the above terms being effective for the year ended 31 December 2018, the Domestic Bonds were classified as current liabilities as at 31 December 2017. In October and December 2018, certain holders of the Domestic Bonds registered to sell back a total of 557,420 bonds at a price of RMB100 each for RMB55,742,000, which were fully repaid by the Group.

At 31 December 2018, the fair values for the 2015 Senior Notes, the 2017 Senior Notes, the 2018 Senior Notes and the Domestic Bonds amounted to RMB2,468,548,000 (2017: RMB2,436,761,000), RMB3,079,235,000 (2017: RMB3,139,485,000), RMB4,025,368,000 (2017: Nil) and RMB3,472,850,000 (2017: RMB3,463,250,000), respectively.

The fair values of the 2015 Senior Notes, the 2017 Senior Notes, 2018 Senior Notes and the Domestic Bonds are based on price quotations from financial institution at the reporting date.

34. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Revaluation of properties RMB'000
At 1 January 2017	1,004,361
Charged to profit or loss during the year	282,245
At 31 December 2017 and 1 January 2018	1,286,606
Charged to profit or loss during the year	189,567
Deemed acquisition of subsidiaries (note 41)	828,657
At 31 December 2018	2,304,830

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. DEFERRED TAX (Continued)

Deferred tax assets

	Unrealised profits arising from intra-group transactions RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2017	22,210	83,059	153,216	258,485
Acquisition of subsidiaries that are not a business (note 42)	–	–	8,081	8,081
Deemed disposal of a subsidiary upon loss of control (note 43)	–	–	(5,400)	(5,400)
Credited to profit or loss during the year	6,835	86,091	51,038	143,964
At 31 December 2017	29,045	169,150	206,935	405,130
Effect of adoption of HKFRS 15	–	–	(17,076)	(17,076)
At 31 January 2018 (restated)	29,045	169,150	189,859	388,054
Deemed acquisition of subsidiaries (note 41)	–	–	48,438	48,438
Credited to profit or loss during the year	18,111	123,792	8,766	150,669
At 31 December 2018	47,156	292,942	247,063	587,161

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	561,628	344,923
Net deferred tax liabilities recognised in the consolidated statement of financial position	2,279,297	1,226,399

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. DEFERRED TAX *(Continued)*

At 31 December 2018, the Group has tax losses arising in Mainland China of RMB1,007,299,000 (2017: RMB846,787,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of certain of these losses of RMB19,048,000 (2017: RMB19,048,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became 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 Mainland China 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.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB9,761,569,000 at 31 December 2018 (2017: RMB8,086,811,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. PROVISION FOR MAJOR OVERHAULS

As detailed in note 17 to these financial statements, the Group has contractual obligations to fulfil as a condition of the Operating Concession under the Operating Right Agreement. The obligations are (a) to maintain the Facilities it operates to a specified level of serviceability and (b) to restore the Facilities to a specified condition before they are handed over to the Sports Bureau at the end of the Operating Concession. These contractual obligations to maintain or restore the sports and recreation facilities, except for the upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

NOTES TO FINANCIAL STATEMENTS

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35. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for major overhauls of the Facilities for the year are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	38,568	32,564
Additional provisions	5,228	5,003
Increase in a discounted amount arising from the passage of time (note 7)	2,044	1,741
Amount utilised during the year	(428)	(740)
At 31 December	45,412	38,568

36. SHARE CAPITAL

Shares

	2018 HK\$	2017 HK\$
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	1,000,000,000	1,000,000,000
Issued and fully paid:		
4,087,583,380 (2017: 3,823,840,000) ordinary shares of HK\$0.10 each	408,758,338	382,384,000
Equivalent to RMB'000	353,077	329,804

NOTES TO FINANCIAL STATEMENTS

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36. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of movement in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK\$
At 1 January 2017	3,423,840,000	342,384,000
Issue of shares (note (a))	400,000,000	40,000,000
At 31 December 2017 and 1 January 2018	3,823,840,000	382,384,000
Share options exercised (note (b))	245,450,000	24,545,000
Issue of shares for scrip dividend (note (c))	18,293,380	1,829,338
At 31 December 2018	4,087,583,380	408,758,338

Notes:

- (a) During the year ended 31 December 2017, 400,000,000 shares of the Company were placed to certain investors at subscription price of HK\$3.64 per share (the "Placing"). The net proceeds from the Placing were approximately HK\$1,436,142,000 (equivalent to RMB1,223,306,000).
- (b) Subscription rights attaching to 245,450,000 share options were exercised at the subscription price of HK\$2.4 per share (note 37), resulting in the issue of 245,450,000 shares for a total cash consideration, before expenses, of approximately HK\$589,080,000. An amount of approximately RMB60,014,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (c) During the year ended 31 December 2018, 18,293,380 ordinary shares of HK\$0.10 each in the Company were issued at HK\$3.10 per shares as scrip dividend.

Share options

Details of the Company's share option scheme are included in note 37 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

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37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "2010 Scheme") which was adopted at the special general meeting held on 6 January 2010. Employees (including directors) of the Group are included in the eligible participants under the Scheme. A total of 284,000,000 shares is available for issue under the Scheme, which represented 10% of the aggregate of the shares in issue on the date the shares of the Company commenced trading on the Hong Kong Stock Exchange. Pursuant to an ordinary resolution passed on 23 April 2018, the shareholders of the Company approved the adoption of a new share option scheme (the "2018 Scheme") (together with 2010 Scheme, collectively, the "Schemes"). Employees (including directors) of the Group are included in the eligible participants under the 2018 Scheme. A total of 382,384,000 shares is available for issue under the 2018 Scheme, which represented 10% of the aggregate of the shares in issue on 23 April 2018, the date of the ordinary resolution passed. Each participant is entitled to no more than 1% of the total number of shares in issue in any 12-month period. The options shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme. The 2010 Scheme and the 2018 Scheme remain in force until 5 January 2020 and 22 April 2028, respectively.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. SHARE OPTION SCHEME (Continued)

2010 Scheme

The following share options were outstanding under the 2010 Scheme during the year:

	2018		2017	
	Exercise price HK\$	Number of options '000	Exercise price HK\$	Number of options '000
At beginning of year	2.4	284,000	2.4	284,000
Exercised during the year	2.4	(245,450)	–	–
At end of year	2.4	38,550	2.4	284,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options '000	Exercise price HK\$	Exercise period
–	2.4	23 June 2017 to 5 January 2020
38,550	2.4	23 December 2018 to 5 January 2020
<u>38,550</u>		

2017

Number of options '000	Exercise price HK\$	Exercise period
214,000	2.4	23 June 2017 to 5 January 2020
70,000	2.4	23 December 2018 to 5 January 2020
<u>284,000</u>		

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. SHARE OPTION SCHEME (Continued)

2010 Scheme (Continued)

The fair value of the share options granted in 2016 was HK\$78,448,000 (equivalent to RMB70,281,000) (ranged from HK\$0.275 to HK\$0.276 each), of which the Group recognised a share option expense of RMB10,374,000 (2017: RMB53,965,000) during the year ended 31 December 2018.

The fair value of equity-settled share options granted under 2010 Scheme during the prior year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2016
Dividend yield (%)	4.33
Expected volatility (%)	25.59
Risk-free interest rate (%)	2.1
Exit rates of the grantees of the options granted under the 2010 Scheme (%)	0

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

2018 Scheme

The following share options were outstanding under the 2018 Scheme during the year:

	2018		2017	
	Exercise price HK\$	Number of options '000	Exercise price HK\$	Number of options '000
At beginning of year	–	–	–	–
Granted during the year	2.78	382,000	–	–
At end of year	2.78	382,000	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. SHARE OPTION SCHEME (Continued)

2018 Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options '000	Exercise price HK\$	Exercise period
191,000	2.78	1 July 2019 to 11 December 2028
191,000	2.78	1 July 2020 to 11 December 2028
382,000		

The fair value of the share options granted in 2018 was HK\$137,017,000 (equivalent to RMB120,397,000) (ranged from HK\$0.33 to HK\$0.38 each), of which the Group recognised a share option expense of RMB7,163,000 during the year ended 31 December 2018.

The fair value of equity-settled share options granted under 2018 Scheme during the year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	2018
Dividend yield (%)	7.19
Expected volatility (%)	28.63
Risk-free interest rate (%)	2.7
Exit rates of the grantees of the options granted under the 2018 Scheme (%)	0

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 420,550,000 (2017: 284,000,000) share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 420,550,000 additional ordinary shares of the Company and additional share capital of HK\$42,055,000 (equivalent to RMB36,954,000) and share premium of HK\$1,112,425,000 (equivalent to RMB977,488,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 382,000,000 share options outstanding under the Schemes, which represented approximately 9.26% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

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38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on pages 73 and 74 of the financial statements.

(b) Capital reserve

Capital reserve represents the difference between the amounts of consideration and the carrying values of non-controlling interests acquired or disposed of.

(c) Statutory surplus reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

For the entities concerned, the statutory surplus reserve can be used to cover previous years' losses, if any, and may be converted into capital in proportion to equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

(d) Merger reserve

The merger reserve represents the excess of the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the group reorganisation completed in December 2007.

(e) Share option reserve

Share option reserve represents the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

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39. PERPETUAL CAPITAL INSTRUMENTS

	RMB'000
Carrying amount at 1 January 2017	900,000
Redemption of perpetual capital instruments	(200,000)
Carrying amount at 31 December 2017, 1 January 2018 and 31 December 2018	700,000

The perpetual capital instruments are jointly guaranteed by the Company and certain subsidiaries, secured by pledge of the shares of the subsidiaries. There are no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers of the perpetual capital instruments.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
West-Coast Investment	42%	42%
Nanjing Junyuan	50%	–
	2018	2017
	RMB'000	RMB'000
Profit/(loss) for the year attributable to non-controlling interests:		
West-Coast Investment	(9,801)	91,849
Nanjing Junyuan	(303)	–
Accumulated balances of non-controlling interests at the reporting dates:		
West-Coast Investment	1,046,654	1,056,455
Nanjing Junyuan	980,481	–

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

The following tables illustrate the summarised financial information of West-Coast Investment and Nanjing Junyuan. The amounts disclosed are before any inter-company eliminations:

2018	West-Coast Investment RMB'000	Nanjing Junyuan RMB'000
Revenue	196,682	–
Other income	8,580	22
Total expenses	(228,598)	(627)
Loss for the year	(23,336)	(605)
Total comprehensive loss for the year	(23,336)	(605)
Current assets	310,844	508,727
Non-current assets	2,897,920	1,453,175
Current liabilities	(178,607)	(2,508)
Non-current liabilities	(538,123)	–
Net cash flows from/(used in) operating activities	72,437	(1,687,814)
Net cash flows from/(used in) investing activities	38,245	(5)
Net cash flows from/(used in) financing activities	(173,141)	1,689,227
Net increase/(decrease) in cash and cash equivalents	(62,459)	1,408

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

2017	West-Coast Investment RMB'000
Revenue	205,358
Other income	270,786
Total expenses	(257,457)
Profit for the year	218,687
Total comprehensive income for the year	218,687
Current assets	703,862
Non-current assets	3,054,654
Current liabilities	(686,686)
Non-current liabilities	(556,461)
Net cash flows from operating activities	148,122
Net cash flows used in investing activities	(156,443)
Net cash flows from financing activities	26,690
Net increase in cash and cash equivalents	18,369

41. BUSINESS COMBINATION

Deemed Acquisition of Subsidiaries

On 13 June 2018, the Group reached a resolution (the "Resolution") with the joint venture partner of Cheer Rich, pursuant to which the Group is entitled to appoint three of the five directors in the board of directors of Cheer Rich. Cheer Rich was previously a 44.5%-owned joint venture, and as a result of the Resolution, the Group obtained control of Cheer Rich. Cheer Rich and its subsidiaries (the "Cheer Rich Group") are principally engaged in the business of property development and property investment in Shanghai.

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31 December 2018

41. BUSINESS COMBINATION (Continued)

Deemed Acquisition of Subsidiaries (Continued)

The fair values of the identifiable assets and liabilities of the acquisition of subsidiaries as at the date of acquisition were as follows:

	Notes	Cheer Rich Group RMB'000	Others RMB'000	Total RMB'000
Property and equipment	14	534	246	780
Investment properties	15	6,340,000	–	6,340,000
Properties under development		–	644,000	644,000
Completed properties held for sale		73,600	–	73,600
Trade receivables		53,384	–	53,384
Prepaid income tax		–	15,234	15,234
Restricted cash		24,815	113,201	138,016
Cash and cash equivalents		16,999	76,461	93,460
Other current assets		2,196,685	247,121	2,443,806
Trade and bills payables		(941,646)	(24,079)	(965,725)
Contract liabilities		(44,541)	(677,572)	(722,113)
Tax payable		(129,347)	–	(129,347)
Other current liabilities		(2,481,677)	(237,263)	(2,718,940)
Interest-bearing bank and other borrowings		(544,000)	–	(544,000)
Deferred tax liabilities	34	(779,714)	(505)	(780,219)
Non-controlling interests		(1,244,621)	(94,107)	(1,338,728)
Total identifiable net assets at fair value		2,540,471	62,737	2,603,208
Reclassification of investments in joint venture and associate		(2,537,289)	(92,902)	(2,630,191)
Gain/(loss) on deemed acquisition of subsidiaries		3,182	(30,165)	(26,983)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

41. BUSINESS COMBINATION *(Continued)*

Deemed Acquisition of Subsidiaries *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash and cash equivalents acquired	93,460
Net inflow of cash and cash equivalents included in cash flows from investing activities	93,460

Since the acquisition, Cheer Rich Group contributed RMB61,247,000 to the Group's revenue and RMB277,929,000 to the Group's profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB18,090,689,000 and RMB4,183,679,000, respectively.

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS

Year ended 31 December 2018

On 24 July 2018, the Group entered into an equity transfer agreement with an independent third party for the acquisition of a 70% equity interest in Songming Zhongji at a consideration of RMB640,866,000. The acquisition was completed on 24 July 2018 and Songming Zhongji became a non-wholly-owned subsidiary of the Group.

On 10 August 2018, the Group entered into an equity transfer agreement with nine independent third parties for the acquisition of a 80% equity interest in Quanzhou Xinzhongrui Real Estate Development Co., Ltd. ("Quanzhou Xinzhongrui") at a consideration of RMB130,760,000. The acquisition was completed on 10 August 2018 and Quanzhou Xinzhongrui became a non-wholly-owned subsidiary of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2018 *(Continued)*

Save as disclosed above, the Group also acquired certain property development companies at a total consideration of RMB130,742,000 during the year.

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Songming Zhongji RMB'000	Quanzhou Xinzhongrui RMB'000	Others RMB'000	Total RMB'000
Net asset acquired					
Property and equipment	14	5	–	–	5
Properties under development		868	–	96	964
Prepaid land lease payments	16	647,075	163,450	224,242	1,034,767
Prepayments, other receivables and other assets		29,714	–	12,956	42,670
Cash and cash equivalents		8,147	–	533	8,680
Other payables and accruals		(67)	(113,450)	(163,665)	(277,182)
Non-controlling interests		(44,876)	(10,000)	(28,593)	(83,469)
		640,866	40,000	45,569	726,435
Satisfied by:					
Cash		640,866	130,760	130,742	902,368
Shareholders' loans		–	(90,760)	(85,173)	(175,933)
		640,866	40,000	45,569	726,435

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2018 *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(726,435)
Cash and cash equivalents acquired	8,680
Net outflow of cash and cash equivalents included in cash flows from investing activities	(717,755)

Prior to completion of the respective acquisitions, these subsidiaries had not carried on any significant business activities except for mainly holding of land. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of these subsidiaries do not constitute a business.

Year ended 31 December 2017

On 1 May 2017, the Group entered into an equity transfer agreement with four independent third parties for the acquisition of the entire equity interest in Jiangsu Lianqiang Property Co., Ltd. ("Jiangsu Lianqiang") at a consideration of RMB478,746,000. The acquisition was completed on 1 May 2017 and Jiangsu Lianqiang became a wholly-owned subsidiary of the Group.

On 3 May 2017, the Group entered into an equity transfer agreement with three independent third parties for the acquisition of the entire equity interest in Huizhou Chengjing Industrial Co., Ltd. ("Huizhou Chengjing") at a consideration of RMB391,781,000. The acquisition was completed on 3 May 2017 and Huizhou Chengjing became a wholly-owned subsidiary of the Group.

On 13 October 2017, the Group entered into an equity transfer agreement with an independent third party for the acquisition of the entire equity interest in Qingdao Zhong Yutai at a consideration of RMB1,030,708,000. The acquisition was completed on 13 October 2017 and Qingdao Zhong Yutai became a wholly-owned subsidiary of the Group.

On 23 October 2017 and 1 November 2017, the Group entered into two equity transfer agreements with two independent third parties for the acquisition of 73.67% and 26.33% equity interest in Huizhou Shahui Industrial Co., Ltd. ("Huizhou Shahui") at a consideration of RMB316,000,000 and RMB104,000,000, respectively. The acquisition was completed on 23 October 2017 and 1 November 2017 and Huizhou Shahui became a wholly-owned subsidiary of the Group.

Save as disclosed above, the Group also acquired certain property development companies at a total consideration of RMB922,347,000 during the year.

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31 December 2018

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS (Continued)

Year ended 31 December 2017 (Continued)

The net assets acquired by the Group in the above transactions are as follows:

	Notes	Jiangsu Lianjiang RMB'000	Huizhou Chengjing RMB'000	Qingdao Zhong Yutai RMB'000	Huizhou Shahui RMB'000	Others RMB'000	Total RMB'000
Net asset acquired							
Property and equipment	14	–	5	–	–	773	778
Deferred tax assets	34	257	1,904	87	–	5,833	8,081
Properties under development		2,485	38,718	–	50,000	137,204	228,407
Prepaid land lease payments	16	475,964	345,889	1,032,215	370,000	1,016,992	3,241,060
Prepayments, other receivables and other assets		3	3,916	–	–	170,775	174,694
Cash and cash equivalents		37	1,349	227	332	122,994	124,939
Trade and bills payables		–	–	–	–	(218,940)	(218,940)
Other payables and accruals		(17,668)	–	(220,439)	(24,725)	(831,637)	(1,094,469)
Non-controlling interests		–	–	–	–	(81,572)	(81,572)
		461,078	391,781	812,090	395,607	322,422	2,382,978
Satisfied by:							
Cash		478,746	391,781	1,030,708	420,000	922,347	3,243,582
Shareholders' loans		(17,668)	–	(218,618)	(24,393)	(599,925)	(860,604)
		461,078	391,781	812,090	395,607	322,422	2,382,978

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. ACQUISITION OF SUBSIDIARIES THAT ARE NOT A BUSINESS *(Continued)*

Year ended 31 December 2017 *(Continued)*

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration	(2,382,978)
Cash and cash equivalents acquired	124,939
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,258,039)

Prior to completion of the respective acquisitions, these subsidiaries had not carried on any significant business activities except for mainly holding of land. These acquisitions were accounted for by the Group as acquisition of assets, as the operations of these subsidiaries do not constitute a business.

43. DEEMED DISPOSAL OF A SUBSIDIARY UPON LOSS OF CONTROL

Year ended 31 December 2017

	Notes	RMB'000
Net assets disposed of:		
Property and equipment	14	84
Deferred tax assets	34	5,400
Properties under development		1,926,542
Prepayments, other receivables and other assets		68,961
Prepaid income tax		41,188
Cash and cash equivalents		105,619
Trade and bills payables		(14,452)
Other payables and accruals		(849,083)
Interest-bearing bank and other borrowings		(1,240,000)
		44,259
Gain on deemed disposal of a subsidiary upon loss of control	6	20,903
Reclassification to investment in joint ventures		65,162

NOTES TO FINANCIAL STATEMENTS

31 December 2018

43. DEEMED DISPOSAL OF A SUBSIDIARY UPON LOSS OF CONTROL *(Continued)*

Year ended 31 December 2017 *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary upon loss of control is as follows:

	RMB'000
Cash and cash equivalents deconsolidated and net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary upon loss of control	(105,619)

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had deemed acquisitions of subsidiaries with a total identifiable net assets fair value of RMB2,603,208,000 (2017: Nil). Further details are set out in note 41 to these financial statements.

(b) Changes in liabilities arising from financing activities

	Notes	Interest-bearing bank and other borrowings RMB'000	Senior notes and domestic bonds RMB'000
At 1 January 2017		12,420,396	5,857,969
Changes from financing cash flows		1,652,089	3,383,236
Foreign exchange movement		(201,030)	(374,916)
Interest expense		–	25,336
Deemed disposal of a subsidiary upon loss of control	43	(1,240,000)	–
At 31 December 2017 and 1 January 2018		12,631,455	8,891,625
Changes from financing cash flows		6,694,573	3,704,469
Foreign exchange movement		233,179	572,517
Interest expense		28,794	37,033
Deemed acquisition of subsidiaries	41	544,000	–
At 31 December 2018		20,132,001	13,205,644

NOTES TO FINANCIAL STATEMENTS

31 December 2018

45. FINANCIAL GUARANTEES

The Group does not hold any collateral or other credit enhancements over the guarantees. The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor. The amount initially recognised represents the fair value at initial recognition of the financial guarantees.

- (a) At the end of the reporting period, the Group had financial guarantees which are not provided for in the financial statements as follows:

	2018 RMB'000	2017 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes)	15,912,024	14,947,867

Notes:

- (i) As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any sales proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction or other appropriate means. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

- (ii) The fair value of the guarantees is not significant and the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

In addition, the Group's share of the joint ventures' own financial guarantees, which are not included in the above, is as follows:

	2018 RMB'000	2017 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the joint ventures' properties	1,097,021	793,633

NOTES TO FINANCIAL STATEMENTS

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45. FINANCIAL GUARANTEES (Continued)

- (b) At the end of the reporting period, financial guarantee given to banks in connection with loan facilities granted to joint ventures are not provided for in the financial statements is as follows:

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in connection with loan facilities granted to joint ventures	2,414,790	2,800,000

As at 31 December 2017, the loan facilities guaranteed by the Group to a joint venture were utilised to the extent of RMB1,934,000,000.

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

46. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to secure certain bank and other borrowings granted to the Group:

	Notes	2018 RMB'000	2017 RMB'000
Bank deposits	29	47,909	25,300
Property and equipment	14	19,938	30,568
Investment properties	15	16,148,278	5,771,766
Prepaid land lease payments	16	2,400,597	1,004,198
Properties under development	18	18,029,459	12,162,467
Completed properties held for sale	24	304,098	503,085
		36,950,279	19,497,384

NOTES TO FINANCIAL STATEMENTS

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47. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	31,424	25,305
In the second to fifth years, inclusive	1,115	891
After five years	362	–
	32,901	26,196

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	35,818	15,378
In the second to fifth years, inclusive	26,781	13,904
	62,599	29,282

NOTES TO FINANCIAL STATEMENTS

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48. COMMITMENTS

In addition to the operating lease commitments detailed in note 47(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Capital expenditure for properties under development, prepaid land lease payments and construction of investment properties in Mainland China	15,245,582	9,686,960

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Capital expenditure for joint ventures' properties under development and construction of investment properties in Mainland China	2,803,668	185,843

49. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed in note 27 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Property rental income from companies controlled by the Wong Family	(i)	8,393	7,624
Property management fees from companies controlled by the Wong Family	(ii)	3,803	4,157
Project management income received from joint ventures	(iii)	90,546	51,921
Aircraft leasing expense paid to a company controlled by Mr. Wong	(iv)	3,926	4,032
Sales agency fees paid to an associate	(v)	–	1,689
Purchase of a property from a joint venture	(vi)	543,418	–

NOTES TO FINANCIAL STATEMENTS

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49. RELATED PARTY TRANSACTIONS

(a) *(Continued)*

Notes:

- (i) The property rental income were charged at rates ranging from RMB5 to RMB264 (2017: from RMB13 to RMB210) per square metre.
 - (ii) The property management fees were charged at rates ranging from RMB13 to RMB61 (2017: from RMB6 to RMB57) per square metre.
 - (iii) The project management income were charged with reference to the contracted sales amount and certain costs incurred in respect of property development projects.
 - (iv) The leasing expense was charged at US\$50,000 (2017: US\$50,000) per month.
 - (v) The sales agency fees were charged at rates ranging from 0.7% to 0.9% of the selling price of the relevant properties.
 - (vi) The purchase price of the property was agreed between the Group and the joint venture by negotiation.
- (b) In the opinion of the directors, the directors of the Company represent the key management personnel of the Group. Further details of the compensation of key management personnel of the Group are set out in note 9 to the financial statements.

Transactions of items (a)(i), (a)(ii) and (a)(iv) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

50. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments, financial assets at fair value through profit or loss and available-for-sale investments, which are measured at fair value, other financial assets and liabilities of the Group as at 31 December 2018 and 2017 were financial assets and financial liabilities stated at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, available-for-sale investments, financial assets at fair value through profit or loss and senior notes and domestic bonds, reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of interest-bearing bank and other borrowings, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

Derivative financial instruments, the capped forward cross currency swap contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of capped forward cross currency swap contracts are the same as their fair values.

The fair values of listed equity investments are based on quoted market prices.

The fair values of unlisted equity investments as at 31 December 2018 are based on price quotation from the respective fund manager or estimates based on enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple for similar companies adjusted to reflect the specific circumstances of the investments. The valuation technique is changed from dividend discount model to valuation multiple in the current year as, in the opinion of the directors, its application results in a measurement that is more representative of fair value of the unlisted equity investments since no dividend is received from those unlisted equity investments in the current year.

The fair values of the unlisted available-for-sale equity investments as at 31 December 2017 were estimated by using prices from recent transaction without adjustment and dividend discount model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the investment.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Below is a summary of significant unobservable inputs to the valuation of available-for-sale investments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
As at 31 December 2018				
Unlisted equity investments at fair value through profit or loss	Valuation multiples	Average EV/EBITDA multiple of peers rate	11.92	5% increase/(decrease) in multiple would have no material impact on the fair value
		Discount for lack of marketability	25%	5% increase/(decrease) in discount would have no material impact on the fair value
As at 31 December 2017				
Unlisted available-for-sale equity investments	Dividend discount model	Sustainable dividend growth rate	11%	1% increase/(decrease) in sustainable dividend growth rate would have no material impact on the fair value
		Discount rate	16%	1% increase/(decrease) in discount rate would have no material impact on the fair value

NOTES TO FINANCIAL STATEMENTS

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51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Asset measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	65,053	–	577,387	642,440

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	–	–	229,541	229,541

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	26,739	–	26,739

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	189,395	–	189,395

During the year, there was no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, senior notes and domestic bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also entered into derivative transactions such as capped forward cross currency swap contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group's accounting policies related to derivatives are set out in note 3 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
RMB	150	(140,748)
HK\$	150	(41,056)
US\$	150	(31,446)
RMB	(150)	140,748
HK\$	(150)	41,056
US\$	(150)	31,446

NOTES TO FINANCIAL STATEMENTS

31 December 2018

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2017		
RMB	150	(73,628)
HK\$	150	–
US\$	150	(37,908)
RMB	(150)	73,628
HK\$	(150)	–
US\$	(150)	37,908

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong, in which bank and other borrowings and senior notes were denominated either in HK\$ or US\$. The fluctuation of exchange rate of RMB against other foreign currencies will not have material adverse effect on the operating results of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate against HK\$, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2018		
If HK\$ weakens against RMB	3%	14,500
If HK\$ strengthens against RMB	(3%)	(14,500)
	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2017		
If HK\$ weakens against RMB	3%	(36,949)
If HK\$ strengthens against RMB	(3%)	36,949

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 45(a).

The credit risk of the Group's trade receivables and other financial assets, which mainly comprise cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Financial assets measured at amortised cost are all classified under stage 1 for measurement of ECLs except for trade receivables which apply simplified approach in calculating ECLs. The loss allowance provision for restricted cash, pledged deposits, cash and cash equivalents, trade receivables and financial assets included in prepayment, other receivables and other assets were not significant as at 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand RMB'000	In the second year RMB'000	2018 In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	11,591,819	3,490,463	6,675,911	347,438	22,105,631
Senior notes and domestic bonds	742,158	6,666,584	7,931,422	–	15,340,164
Trade and bills payables	8,208,575	120,770	17,788	–	8,347,133
Financial liabilities included in other payables and accruals	9,929,465	–	–	–	9,929,465
Due to related parties	1,246,015	–	–	–	1,246,015
	31,718,032	10,277,817	14,625,121	347,438	56,968,408
Financial guarantees issued: Maximum amount guaranteed	18,326,814	–	–	–	18,326,814

NOTES TO FINANCIAL STATEMENTS

31 December 2018

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

	Within one year or on demand RMB'000	In the second year RMB'000	2017 In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	5,237,046	6,779,273	1,633,676	97,545	13,747,540
Senior notes and domestic bonds	4,070,579	414,887	6,061,252	–	10,546,718
Trade and bills payables	3,014,497	114,361	23,345	–	3,152,203
Financial liabilities included in other payables and accruals	4,525,725	–	–	–	4,525,725
Due to related parties	1,707,222	–	–	–	1,707,222
	18,555,069	7,308,521	7,718,273	97,545	33,679,408
Financial guarantees issued:					
Maximum amount guaranteed	17,747,867	–	–	–	17,747,867

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a net gearing ratio, which is net debt divided by the total equity. Net debt includes total interest-bearing bank and other borrowings, senior notes and domestic bonds (as shown in the consolidated statement of financial position) less cash and bank balances (including restricted cash, time deposits and pledged deposits). Capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital instruments and reserves). The Group aims to maintain a healthy and stable net gearing ratio.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The net gearing ratios as at 31 December 2018 and 31 December 2017 were as follows:

	Notes	2018 RMB'000	2017 RMB'000
Interest-bearing bank and other borrowings	32	20,132,001	12,631,455
Senior notes and domestic bonds	33	13,205,644	8,891,625
Less: Cash and bank balances	29	(19,972,815)	(9,642,125)
Net debt		13,364,830	11,880,955
Total equity		22,139,407	16,557,870
Net gearing ratio		60%	72%

53. EVENTS AFTER THE REPORTING PERIOD

- (a) In January 2019, the Group issued senior notes at a coupon rate of 8.75% due 2021 with aggregate principal amount of US\$500,000,000. Details of the senior notes are set out in the Company's announcement dated 8 January 2019.
- (b) On 7 December 2018, the Group entered into an equity transfer agreement with an independent third party for acquisition of the 51% in Hong Hui Development Co., Ltd. and its subsidiaries ("Hong Hui Group") at a cash consideration of RMB628,729,000. Hong Hui Group is principally engaged in the business of property development and property investment in Kunshan.

The transaction was completed in January 2019. The Group is in the process of making assessment on the purchase price allocation of the above transaction. Details of the above transaction are set out in the Company's announcement dated on 12 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–	–
Due from subsidiaries	2,407,213	2,281,469
Total non-current assets	2,407,213	2,281,469
CURRENT ASSETS		
Prepayments	976	428
Due from subsidiaries	9,299,552	6,319,428
Cash and cash equivalents	795,612	991,519
Total current assets	10,096,140	7,311,375
CURRENT LIABILITIES		
Other payables and accruals	125,013	70,956
Derivative financial instruments	26,739	40,364
Due to subsidiaries	–	2,497,463
Interest-bearing bank and other borrowings	2,491,593	1,162,149
Total current liabilities	2,643,345	3,770,932
NET CURRENT ASSETS	7,452,795	3,540,443
TOTAL ASSETS LESS CURRENT LIABILITIES	9,860,008	5,821,912
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	2,797,225	1,914,045
Derivative financial instruments	–	149,031
Senior notes	9,776,918	5,414,433
Total non-current liabilities	12,574,143	7,477,509
Net liabilities	(2,714,135)	(1,655,597)
EQUITY		
Issued capital	353,077	329,804
Reserves (note)	(3,067,212)	(1,985,401)
Total equity	(2,714,135)	(1,655,597)

Wong Chiu Yeung
Director

Huang Youquan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2018

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017		1,195,848	(279,693)	2,833	(2,527,116)	(1,608,128)
Total comprehensive income/(loss) for the year		–	145,923	–	(1,141,527)	(995,604)
Issue of shares		1,189,234	–	–	–	1,189,234
2016 final dividend		(429,439)	–	–	–	(429,439)
2017 interim dividend	12	(195,429)	–	–	–	(195,429)
Equity-settled share option arrangements	37	–	–	53,965	–	53,965
At 31 December 2017 and 1 January 2018		1,760,214	(133,770)	56,798	(3,668,643)	(1,985,401)
Total comprehensive loss for the year		–	(187,374)	–	(818,083)	(1,005,457)
Share options exercised		559,765	–	(60,014)	–	499,751
Issue of shares for scrip dividend		46,335	–	–	–	46,335
2017 final dividend	12	(413,984)	–	–	–	(413,984)
2018 interim dividend	12	(225,993)	–	–	–	(225,993)
Equity-settled share option arrangements	37	–	–	17,537	–	17,537
At 31 December 2018		1,726,337	(321,144)	14,321	(4,486,726)	(3,067,212)

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

OUR REGISTERED OFFICE

Registered Office
Cricket Square Hutchins Drive P.O. Box
2681 Grand KY1-1111
Cayman Islands

TRUSTEE	PAYING AGENT AND TRANSFER AGENT	SHARED SECURITY TRUSTEE	REGISTRAR
DB Trustees (Hong Kong) Limited Level 60, International Commerce Centre 1 Austin Road West Kowloon Hong Kong	Deutsche Bank AG, Hong Kong Branch Level 60, International Commerce Centre 1 Austin Road West Kowloon Hong Kong	Deutsche Bank Trust Company Americas 60 Wall Street, 24th Floor Mail Stop: NYC60-2407 New York, NY10005 USA	Deutsche Bank AG, Hong Kong Branch Level 60, International Commerce Centre 1 Austin Road West Kowloon Hong Kong

OUR LEGAL ADVISERS

As to U.S. and Hong Kong law:

As to PRC law:

*As to Cayman Islands law and
British Virgin Islands law:*

Sidley Austin
Level 39, Two International
Finance Centre
8 Finance Street
Central, Hong Kong

**Jingtian & Gongcheng
Attorneys at Law**
34/F, Tower 3
China Central Place Tower
77 Jianguo Road
Chaoyang District
Beijing 100025
P. R. China

**Maples and Calder
(Hong Kong) LLP**
26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISERS TO THE INITIAL PURCHASERS

As to United States law:

As to PRC law:

Davis Polk & Wardwell
18th Floor, The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

King & Wood Mallesons
18th Floor, East Tower
World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing 100020
P.R. China

INDEPENDENT ACCOUNTANTS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong