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



Jiayuan International Group Limited
佳源國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(the “Company”, Stock Code: 2768)

US\$130,000,000 11.0% SENIOR NOTES DUE 2024
(the “Notes”, Stock Code: 40684)

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 11 May 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 only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Stock Exchange on that basis. Accordingly, the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) (each as defined in the Offering Memorandum) 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 circulated 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
Jiayuan International Group Limited
Shum Tin Ching
Chairman

Hong Kong, 18 May 2021

As at the date of this announcement, the Board of the Company comprises: (i) Mr. Shum Tin Ching, the Chairman and a Non-executive Director; (ii) Mr. Zhang Yi, a Vice Chairman and an Executive Director; (iii) Mr. Huang Fuqing, a Vice Chairman and an Executive Director; (iv) Ms. Cheuk Hiu Nam, an Executive Director; (v) Mr. Wang Jianfeng, an Executive Director; (vi) Mr. Tai Kwok Leung, Alexander, an Independent Non-executive Director; (vii) Dr. Cheung Wai Bun, Charles, JP, an Independent Non-executive Director; (viii) Mr. Gu Yunchang, an Independent Non-executive Director; and (ix) Mr. Shen Xiaodong, a Non-executive Director.

IMPORTANT NOTICE

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CONFIRMATION OF YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED, BOCOM INTERNATIONAL SECURITIES LIMITED, VALUABLE CAPITAL LIMITED, BNP PARIBAS, CMB INTERNATIONAL CAPITAL LIMITED, VISION CAPITAL INTERNATIONAL HOLDINGS LIMITED, CRIC SECURITIES COMPANY LIMITED, CCB INTERNATIONAL CAPITAL LIMITED, HARMONIA CAPITAL LIMITED, GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED, SEAZEN RESOURCES SECURITIES LIMITED, CSFG INTERNATIONAL SECURITIES LIMITED, POTOMAC CAPITAL LIMITED AND HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED (THE "INITIAL PURCHASERS"), THAT YOU (I) ARE OUTSIDE THE UNITED STATES, AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), PURSUANT TO AND IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

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

The communication of the attached document and any other document or materials relating to the issue of the securities offered thereby 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 (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"). In the United Kingdom, the securities offered thereby are only available to, and any investment or investment activity to which the attached document relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached document or any of its contents.

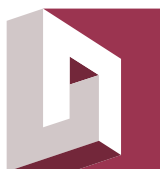
UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the securities has led to the conclusion that: (i) the target market for the securities is only eligible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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS. The securities offered hereby are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97, 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 offered hereby or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities offered hereby 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 ("EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic 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.



佳源國際控股有限公司

Jiayuan International Group Limited

(Incorporated in the Cayman Islands with limited liability)

US\$130,000,000 11.0% Senior Notes due 2024

Issue Price: 96.638%

Jiayuan International Group Limited (the “Company”) is offering 11.0% Notes due 2024 in the aggregate principal amount of US\$130,000,000 (the “Notes”). The Notes will be issued under an indenture (the “Indenture”) to be dated May 17, 2021. The Notes will bear interest from May 17, 2021 at 11.0% per annum payable semi-annually in arrears on February 17 and August 17 of each year, commencing August 17, 2021, except that the first payment of interest, to be made on August 17, 2021, will be in respect of the period from and including May 17, 2021 to but excluding August 17, 2021. The Notes will mature on February 17, 2024.

The Notes are senior obligations of Jiayuan International Group Limited (the “Company”), guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the section entitled “Description of the Notes.” We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee (the “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 May 17, 2023, we may at our option redeem the Notes, in whole or in part, at the redemption price set forth in “Description of the Notes – Optional Redemption,” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to May 17, 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 a premium (as set out in the section entitled “Description of the Notes” of this offering memorandum) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, at any time and from time to time prior to May 17, 2023, we may redeem up to 35% of the Notes, at a redemption price of 111.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of capital stock of the Company. Upon the occurrence of a Change of Control Triggering Event or a Delisting Event (each as defined in the Indenture), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) at least *pari passu* in right of payment against the Company with all other unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated indebtedness pursuant to applicable law), (3) effectively subordinated to the secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the collateral securing the Notes), and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). 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, the JV Subsidiary Guarantees and the Collateral.”

Certain investors may purchase and own a significant portion of the Notes being offered under this offering memorandum.

For a more detailed description of the Notes, see the section entitled “Description of the Notes” beginning on page 159.

Investing in the Notes involves risks. See the section entitled “Risk Factors” beginning on page 15. Furthermore, investors should be aware that the Notes are guaranteed by Subsidiary Guarantors which do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and that there are various other risks relating to the Notes, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarise themselves with before making an investment in the Notes. See the section entitled “Risk Factors” beginning on page 15 and particularly page 46 for risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“Professional Investors”) only. This document is for distribution to Professional Investors only. **Notice to Hong Kong investors:** The Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Company, 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 Hong Kong Stock Exchange 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 document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the content 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.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 confirms, having made all reasonable enquiries, that to the best of their knowledge there are no other material facts the omission of which would make any statement herein misleading. The expected date of listing of the Notes on the Hong Kong Stock Exchange is on or around May 18, 2021.

The Company has been assigned a long-term corporate credit rating of B2 with a positive outlook by Moody’s Investors Service (“Moody’s”), a long-term issuer credit rating of B with a stable outlook by Standard & Poor’s Ratings Services (“S&P”) and a long-term foreign-currency issuer default rating of B with a positive outlook by Fitch Ratings Ltd. (“Fitch”) and the Notes are expected to be rated B3 by Moody’s. The ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody’s or S&P. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

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 dated July 22, 2020 evidencing such 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 the delivery of the Notes will be made on or about May 17, 2021 through the book-entry facilities of the Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”).

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

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|----------------------|-----------------------------|-------------------------------|------------------|----------------------|---------------------------------|--------------------------|
| HSBC | BOCOM International | Valuable Capital Limited | BNP PARIBAS | CMB International | Vision Capital International | CRIC Securities |
| CCB International | Harmonia Capital Limited | Guotai Junan International | Seazen Resources | CSFG | Potomac Capital Limited | Haitong International |

Offering Memorandum dated May 11, 2021

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

This offering memorandum is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129.

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

Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of sales to UK retail investors – The 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 (“EUWA”); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The communication of this offering memorandum and any other document or materials relating to the issue of the securities described herein 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 falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”)), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “relevant persons”). In the United Kingdom, the securities described in this offering memorandum are only available to, and any investment or investment activity to which this offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE INITIAL PURCHASERS ACTING AS THE STABILIZATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZATION MANAGER(S)) MAY, SUBJECT TO APPLICABLE LAWS AND REGULATIONS, OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE TIME OF DELIVERY. HOWEVER, THERE IS NO OBLIGATION ON ANY STABILIZING MANAGER TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

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

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

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

No representation or warranty, express or implied, is made by The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, Valuable Capital Limited, BNP Paribas, CMB International Capital Limited, Vision Capital International Holdings Limited, CRIC Securities Company Limited, CCB International Capital Limited, Harmonia Capital Limited, Guotai Junan Securities (Hong Kong) Limited, Seazen Resources Securities Limited, CSFG International Securities Limited, Potomac Capital Limited and Haitong International Securities Company Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee” and the “Collateral Agent”), Citibank, N.A., London Branch (the “Paying Agent” and “Transfer Agent” and the “Registrar” and together with the Collateral Agent, the “Agents”) or any of their affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future. To the fullest extent permitted by law, the Initial Purchasers do not accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by any of the Initial Purchaser or on their behalf in connection with the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or the issue and offering of the Notes. The Initial Purchasers 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.

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, the Trustee, the Agents or any person affiliated with the Initial Purchasers, the Trustee, the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any) (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of our Company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, the Trustee or the Agents.

The Notes and 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.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)) may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are

required by us and the Initial Purchasers to inform itself about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)) and distribution of this offering memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution.”

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Company has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

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.

CERTAIN DEFINITIONS, CONVENTIONS, CURRENCY AND FINANCIAL INFORMATION PRESENTATION

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

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

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.5250 to US\$1.00, the noon buying rate in Renminbi as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on December 31, 2020, and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK\$7.7534 to US\$1.00, the noon buying rate in Hong Kong dollars as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on December 31, 2020. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or Hong Kong dollars, or vice versa, at any particular rate, or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

References to “Huiyuan Group” in this offering memorandum are to Huiyuan Investment Holdings Limited (徽源投資控股有限公司) (the “Huiyuan Investment”), a company incorporated under the laws of BVI with limited liability, or to Huiyuan Investment Holdings Limited and its subsidiaries.

References to “Chuangyuan Group” in this offering memorandum are to Chuangyuan Holdings Limited (創源控股有限公司), a company incorporated under the laws of the BVI with limited liability, or to Chuangyuan Holdings Limited and its subsidiaries.

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

References to “SEHK” in this offering memorandum are to The Stock Exchange of Hong Kong Limited.

References to “BVI” in this offering memorandum are to the British Virgin Islands.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which differ in certain respects from generally accepted accounting principles in certain other countries. You should seek professional advice with respect to such differences in generally accepted principles. Unless the context otherwise requires, financial information in this offering memorandum is presented on a consolidated basis.

Unless the context otherwise requires, references to “2018”, “2019” and “2020” in this offering memorandum are to our financial years ended December 31, 2018, 2019 and 2020, respectively.

References to the “ICBC Facility” are to the term loan facility in an aggregate principal amount of HK\$3,900.0 million pursuant to an agreement dated November 28, 2017 between, among others, the Company and Industrial and Commercial Bank of China (Macau) Limited (“ICBC”) as agent.

References to the “HSBC Facility” are to the term loan facility in an aggregate principal amount of HK\$1,500.0 million pursuant to an agreement dated November 14, 2018 between, among others, the Company and The Hongkong and Shanghai Banking Corporation (“HSBC”) as agent.

References to the “HSB Facility” are to the term loan facility in an aggregate principal amount of HK\$147.2 million pursuant to an agreement dated June 8, 2018 between, among others, the Company and Hang Seng Bank (“HSB”) as agent.

References to the “January 2021 Notes” are to the Company’s 12.5% senior notes due 2023 issued on January 21, 2021.

References to the “June 2021 Notes” are to the Company’s 11.75% senior notes due 2021 issued on June 24, 2020 (the “Original June 2021 Notes”) and the Company’s additional 11.75% senior notes due 2021 issued on July 21, 2020 (the “Additional June 2021 Notes”, together with the Original June 2021 Notes, the “June 2021 Notes”).

References to the “May 2022 Notes” are to the Company’s 11.375% senior notes due 2022 issued on May 2, 2019.

Reference to the “March 2022 Notes” are to the Company’s 13.75% senior notes due 2022 issued on July 11, 2019.

Reference to the “February 2023 Notes” are to the Company’s 13.75% senior notes due 2023 issued on October 18, 2019.

Reference to “October 2022 Notes” are to the Company’s 12.0% senior notes due 2022 issued on October 30, 2020.

References to the “April 2023 Notes” are to the Company’s 12.5% senior notes due 2023 issued on October 8, 2020 (the “Original April 2023 Notes”) and the Company’s additional 12.5% senior notes due 2023 issued on November 12, 2020 (the “Additional April 2023 Notes”, together with the Original April 2023 Notes, the “April 2023 Notes”).

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. Unless otherwise specified, all site area and gross floor area (“GFA”) data presented in this offering memorandum represent the site area and GFA data of entire projects, including those attributable to the minority shareholders of our project companies that are not wholly owned by us. References to “sq.m.” are to the measurement unit of square meters.

In this offering memorandum, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus; a land use rights certificate refers to a state-owned land use rights certificate (國有土地使用證) issued by a local real estate and land resources bureau with respect to the land use rights; a construction land planning permit refers to a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China; a pre-sale permit refers to a commodity property presale permit (商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties; a certificate of completion refers to a construction project planning inspection and clearance certificate (建設工程規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or an equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection; and a property ownership certificate refers to a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land.

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

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

FORWARD-LOOKING STATEMENTS

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

- our business and operating strategies;
- our capital expenditure and property development plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- various business opportunities that we may pursue;
- the interpretation and implementation of the existing rules and regulations relating to land appreciation tax and its future changes in enactment, interpretation or enforcement;
- the prospective financial and operational information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- projects under development or held for future development;
- the regulatory environment of our industry in general;
- the performance and future developments of the property market in China or any region in China in which we may engage in property development;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the regions where we operate, which affect land supply, availability and cost of financing, pre-sale, pricing and volume of our property development projects;
- significant delay in obtaining the various permits, proper legal titles or approvals for our projects under development or held for future development;
- timely repayments by our purchasers of mortgage loans guaranteed by us;
- changes in competitive conditions and our ability to compete under these conditions;
- the performance of the obligations and undertakings of the third-party contractors under various construction, building, interior decoration, material and equipment supply and installation contracts;
- changes in currency exchange rates; and
- other factors beyond our control.

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

SUMMARY

Overview

We are an established property developer of large-scale residential complex projects and integrated commercial complex projects in the PRC. Our main business operations include: (i) the development and sale of residential and commercial properties; (ii) the provision of development services; and (iii) property investment, which mainly consists of leasing commercial properties owned or developed by us.

Adhering to our sound and stable development strategies of “be delicate, be detailed oriented, offer good quality and maintain strong market position (做精、做細、做好、做強)”, we had, as of December 31, 2020, a portfolio of 88 property development projects in various major cities or key towns in the PRC, comprising 42 residential complex projects, 45 integrated commercial complex projects and one commercial complex project. As of December 31, 2020, we had a land reserve of approximately 17.7 million sq.m. covering Yangtze River Delta Region, Anhui Province, city cluster in the Guangdong-Hong Kong-Macao Greater Bay Area, cities along the “Belt and Road” regions and other key provincial capital cities. Under our sound and stable development strategies, we will focus our development effort on: (i) residential properties in major cities such as Nanjing, Yangzhou and Shenzhen; and (ii) integrated commercial complexes in “key towns”(中心鎮) or towns which are under key development, such as Taizhou and Changzhou.

In response to the national policy of continuing urbanization and the call for city modernization emphasised by the Jiangsu Provincial Government, we envision that key towns will be developed into major economic and transportation hubs among neighbouring towns, facilitating the pull factors for urbanization. We expect that the economic development of key towns will also enrich the disposable income of the local residents, which, in turn, will attribute to a healthy demand for residential and commercial properties. We generally select key towns where the level of development of commercial infrastructure is relatively immature for the development of our integrated commercial complexes with a view to satisfying the demand for commercial properties in such key towns. We believe that the implementation of our sound and stable development strategies is imperative in maximizing our profitability and minimizing competition. We also plan to adhere to these sound and stable development strategies to expand our operations to develop residential complexes in cities with sizeable regional economies and populations such as Guangzhou and Shenzhen with a view to maximizing our return under the projected property demand in the PRC.

Our residential complexes and integrated commercial complexes have been or will be developed into mixed-use communal style complexes, which are designed to provide a high level of convenience and enjoyment to our customers. In this regard, we take pride in the following key values of our property development projects:

Education value: we appreciate the importance of education to our customers who are parents. Hence, we aim to choose project sites which are located in a relatively established school network. Since our inception, we have participated in the construction of five schools, including a nursery school, which are located within our property development projects.

Leisure value: we generally apportion a sizeable section of site area for the development of European-Chinese themed scenic gardens and squares featuring classical or neo-classical landmarks. These gardens and squares are designed not only for the leisure enjoyment of our customers, but also for the provision of visual appeal to the owners of our products and potential customers. We believe that this also gives the owners of our products a sense of pride for owning our products.

Commercial value: as our property development projects are planned to be developed into communal style complexes, we develop retail stores and shopping arcades in our residential properties to provide “one-stop” shopping experience to our customers and satisfy the daily needs of our residential

customers and surrounding local residents. In order to achieve the above and maximize our profitability, we plan to retain control over central management of our shopping arcades which enables us to select tenants and their industry composition.

We believe that our quality property development projects are or will be well received in the locations in which we operate or plan to expand our operation.

On March 8, 2016, we completed our initial public offering with our shares listed on the Main Board of the Hong Kong Stock Exchange (the “Listing”). Since the Listing, we have become a constituent stock of benchmarking indices, including Hang Seng Composite Small Cap Index, MSCI China Small Cap Index, Hang Seng Stock Connect Hong Kong Index and Shenzhen-Hong Kong Stock Connect stock list. In addition, we became a constituent stock of the Hang Seng Composite Large Cap & Mid Cap Index on September 10, 2018.

Over the years, we have received numerous awards and accolades from government authorities, media organizations and unions of property developers in Jiangsu Province for the high quality of our property development projects. We believe that these awards represent an indication of the remarkable quality of our Group and our property development projects.

Competitive Strengths

We believe that the following competitive strengths contribute to our success in the property development market and distinguish us from our competitors:

- a design, planning and quality control process that ensures the quality of our products;
- an operation system that saves time and costs in the development of quality property projects;
- the established “Jia Yuan” brand and reputation well recognized in Jiangsu Province; and
- a stable and experienced management team and organizational structure that promote operational efficiency.

Business Strategies

We aim to become one of the leading property developers in the PRC. We plan to achieve this target through adopting and implementing the following strategies:

- expand our operations in Jiangsu Province and other parts of China;
- enhance the recognition of “Jia Yuan” brand; and
- recruit, retain and train talented employees.

Recent Developments

Acquisition of Luyuan Investment Holdings Limited Involving the Issue of Convertible Bonds

On January 13, 2021, we entered into a Sale and Purchase Agreement with Mr. Shum, pursuant to which, we have agreed to acquire, and Mr. Shum has agreed to sell the entire issued share capital in Luyuan Investment Holdings Limited (“Luyuan Investment”) at a consideration of HK\$7,247,560,000, which will be settled by (i) issue of Convertible Bonds; (ii) by way of issue and allotment of shares; and (iii) the remaining balance by cash. On February 25, 2021, we entered into a supplemental agreement with Mr. Shum to make certain amendments in the Sale and Purchase Agreement dated January 13, 2021.

Issuance of the January 2021 Notes

On January 21, 2021, we issued the January 2021 Notes in the aggregate principal amount of US\$300,000,000. The January 2021 Notes bear interest at 12.5%. The January 2021 Notes will mature on July 21, 2023.

Repurchase of March 2022 Notes

On February 5, 2021, we repurchased the March 2022 Notes in an aggregate principal amount of US\$55,755,000. On March 11, 2021, we further repurchased the March 2022 Notes in an aggregate principal amount of US\$61,538,000 following the exercise of a put option pursuant to the terms of the March 2022 Notes.

COVID-19 Pandemic

Since early March 2020, the outbreak of COVID-19, a highly infectious novel coronavirus initially detected toward the end of 2019, has started a pandemic. 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 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. As the COVID-19 outbreak has stabilized in the PRC, we have resumed our normal operation. 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 – Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic.”

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table set forth our summary consolidated financial information and other data as of the dates and for the periods indicated.

Our consolidated financial statements for the year ended December 31, 2018 have been restated as the Company has applied merger accounting to the acquisitions, being business combinations involving entities under common control. In preparing the consolidated financial statements for the year ended December 31, 2019, the comparative amounts of the consolidated financial statement for the year ended December 31, 2018 have been restated to present as if Chuangyuan Group and Huiyuan Group had been combined as at January 1, 2018. It should be read in conjunction with the circulars issued by the Company for the acquisition of Chuangyuan Group and Huiyuan Group dated December 24, 2018 and June 25, 2019, respectively.

The summary of consolidated financial information as of and for the years ended December 31, 2019 and 2020 (except for the EBITDA data) is derived from our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 and included elsewhere in this offering memorandum. Unless otherwise specifically indicated, all references to financial information as of and for the year ended December 31, 2018 presented in this offering memorandum are to our financial information as restated for such period. The restated financial information for the year ended December 31, 2018 presented in this offering memorandum has not been reviewed or audited. Investors should be aware that, as a result of the restatement, the restated financial information contained in this offering memorandum may not be directly comparable to historical financial information as previously reported to the Hong Kong Stock Exchange in our annual reports.

As of January 1, 2018, the Group adopted HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”), which are effective for accounting periods beginning on or after January 1, 2018.

According to the HKFRS 9 and HKFRS 15 transitional arrangements, upon initial application of HKFRS 9 and HKFRS 15, the Group is not required to restate the comparative figures of the prior period. Instead, differences caused by the adoption of the HKFRS 9 and HKFRS 15 are adjusted in the beginning balance of retained earnings and other comprehensive income. Therefore, the Group’s 2018 consolidated financial statements is not comparable with the Group’s 2017 consolidated financial statements. For the impact on adoption of HKFRS 9 and HKFRS 15, please refer to note 2 to the Group’s 2018 annual report.

The Company has adopted HKFRS 16 “Leases” (“HKFRS 16”) retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognized in the opening balance sheet on January 1, 2019. For details, please refer to notes to our audited consolidated financial statement as of and for the year ended December 31, 2019 included elsewhere in this offering memorandum. As such, the audited consolidated financial information as of and for the year ended December 31, 2019 may not be directly comparable against the Company’s consolidated financial information as of and for the year ended December 31, 2018.

As such, investors should exercise caution when reviewing our consolidated financial statements as of and for the years ended December 31, 2018, 2019 and 2020.

Our consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and interim financial information, and the notes thereto included elsewhere in this offering memorandum.

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

| | For the year ended December 31, | | | |
|---|---|------------------|------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands, except for percentages) | | | |
| Revenue | 13,616,003 | 16,070,171 | 18,363,185 | 2,814,281 |
| Cost of sales | (9,112,135) | (10,828,170) | (12,427,653) | (1,904,621) |
| Gross profit | 4,503,868 | 5,242,001 | 5,935,532 | 909,660 |
| Other income | 351,707 | 308,478 | 380,098 | 58,253 |
| Other gains and losses | (179,135) | (221,777) | 852,383 | 130,633 |
| Net impairment (losses)/reversal on financial assets . . | (94,764) | 19,942 | (27,974) | (4,287) |
| Fair value change on investment properties | 365,890 | 437,238 | (177,503) | (27,204) |
| Change in fair value upon transfer from inventories of properties to investment properties | 520,917 | - | - | - |
| Fair value change on financial assets at fair value through profit or loss | 12,930 | - | - | - |
| Selling and marketing costs | (358,984) | (303,407) | (297,942) | (45,662) |
| Administrative expenses | (420,010) | (492,296) | (422,990) | (64,826) |
| Other expenses | (2,266) | - | - | - |
| Finance costs | (293,400) | (282,698) | (317,641) | (48,681) |
| Share of results of investment accounted for using the equity method | 86,449 | 82,056 | 125,041 | 19,163 |
| Profit before taxation | 4,493,202 | 4,789,537 | 6,049,004 | 927,049 |
| Income tax expense | (2,141,018) | (2,329,054) | (2,517,811) | (385,871) |
| Profit for the year | 2,352,184 | 2,460,483 | 3,531,193 | 541,178 |
| Other comprehensive income (expense) | | | | |
| <i>Item that may be reclassified to profit or loss:</i> | | | | |
| Fair value gain on available-for-sale investment . . . | 2,681 | - | - | - |
| Exchange differences arising on translation of foreign operations | (6,087) | 2,511 | (1,821) | (279) |
| Total comprehensive income for the year | 2,348,778 | 2,462,994 | 3,529,372 | 540,899 |
| Other Financial Data | | | | |
| EBITDA ⁽²⁾ | 4,801,155 | 5,085,020 | 6,386,214 | 978,730 |
| EBITDA margin ⁽³⁾ | 35% | 32% | 35% | 35% |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

(2) EBITDA for any period consists of profit for the year adjusted by the finance costs, income tax expenses and depreciation. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for a reconciliation of our profit or loss for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes, in particular, EBITDA as presented herein does not exclude EBITDA of our Unrestricted Subsidiaries or EBITDA of our PRC subsidiaries, which cannot freely distribute dividends. Interest expense excludes amounts capitalized. See the sections entitled "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indentures governing the Notes.

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

Consolidated Statement of Financial Position

| | As of December 31, | | | |
|--|---|-------------------|-------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Non-Current Assets | | | | |
| Investment properties | 7,571,718 | 7,841,906 | 7,926,545 | 1,214,796 |
| Property and equipment | 133,765 | 132,880 | 123,671 | 18,953 |
| Intangible assets | 1,487 | 31,328 | 38,670 | 5,926 |
| Right-of-use assets | – | 10,694 | 9,624 | 1,475 |
| Investments accounted for using the equity method | 245,465 | 985,051 | 2,289,700 | 350,912 |
| Financial assets at fair value through profit or loss. | 80,871 | 668,204 | 961,039 | 147,286 |
| Deposits paid for acquisition | 1,935,423 | 1,167,684 | 1,150,157 | 176,269 |
| Deferred tax assets | 559,179 | 597,494 | 668,841 | 102,504 |
| Trade and other receivables | 3,909 | 124,934 | 38,450 | 5,893 |
| | <u>10,531,817</u> | <u>11,560,175</u> | <u>13,206,697</u> | <u>2,024,014</u> |
| Current Assets | | | | |
| Inventories of properties | 32,080,889 | 34,112,077 | 42,338,765 | 6,488,700 |
| Financial assets at fair value through profit or loss. | 707,499 | 168,775 | 131,880 | 20,211 |
| Trade and other receivables | 10,131,059 | 7,177,335 | 5,286,935 | 810,258 |
| Amounts due from non-controlling interests | – | – | – | – |
| Prepaid income tax | 513,848 | 563,705 | 383,901 | 58,835 |
| Amounts due from related parties | – | – | – | – |
| Restricted/pledged bank deposits | 2,103,123 | 2,123,101 | 1,938,081 | 297,024 |
| Cash and cash equivalents | 4,599,433 | 6,030,412 | 9,002,740 | 1,379,730 |
| | <u>60,667,668</u> | <u>61,735,580</u> | <u>72,288,999</u> | <u>11,078,772</u> |
| Current Liabilities | | | | |
| Trade and other payables | 6,162,953 | 6,395,483 | 7,283,549 | 1,116,250 |
| Pre-sale deposits received | 17,264,139 | 19,940,467 | 18,136,057 | 2,779,472 |
| Lease liabilities | – | 3,597 | 6,638 | 1,017 |
| Current income tax liabilities | 3,156,105 | 4,628,119 | 6,558,589 | 1,005,148 |
| Bank and other borrowings | 7,012,996 | 4,667,930 | 1,377,858 | 211,166 |
| Senior Notes | 4,477,446 | 314,084 | 5,687,872 | 871,705 |
| Derivative financial instrument | – | – | 190,913 | 29,259 |
| | <u>38,073,639</u> | <u>35,949,680</u> | <u>39,241,476</u> | <u>6,014,017</u> |
| Net Current Assets | <u>12,062,212</u> | <u>14,225,725</u> | <u>19,840,826</u> | <u>3,040,741</u> |
| Total Assets Less Current Liabilities | <u>22,594,029</u> | <u>25,785,900</u> | <u>33,047,523</u> | <u>5,064,755</u> |
| Capital and Reserves | | | | |
| Share capital | 21,083 | 33,870 | 34,876 | 5,345 |
| Reserves | 9,045,432 | 9,825,610 | 13,583,354 | 2,081,740 |
| Equity attributable to owners of the Company | 9,066,515 | 9,859,480 | 13,618,230 | 2,087,085 |
| Non-controlling interests | 1,470,165 | 1,977,678 | 3,839,498 | 588,429 |
| Total Equity | <u>10,536,680</u> | <u>11,837,158</u> | <u>17,457,728</u> | <u>2,675,514</u> |
| Non-Current Liabilities | | | | |
| Bank and other borrowings | 7,787,925 | 7,462,249 | 11,254,769 | 1,724,869 |
| Derivative financial instruments | – | 238,387 | – | – |
| Lease liabilities | – | 7,317 | 2,957 | 453 |
| Pre-sale deposits received | 647,722 | 500,510 | 540,412 | 82,822 |
| Deferred tax liabilities | 660,139 | 779,587 | 726,512 | 111,343 |
| Senior notes | 2,735,063 | 4,960,692 | 3,065,145 | 469,754 |
| Other payables | 226,500 | – | – | – |
| | <u>12,057,349</u> | <u>13,948,742</u> | <u>15,589,795</u> | <u>2,389,241</u> |
| | <u>22,594,029</u> | <u>25,785,900</u> | <u>33,047,523</u> | <u>5,064,755</u> |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

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.”

| | |
|--------------------------------------|---|
| Company | Jiayuan International Group Limited. |
| Notes Offered | US\$130,000,000 aggregate principal amount of 11.0% senior notes due 2024 (the “Notes”). |
| Issue Price | 96.638% of the principal amount of the Notes. |
| Maturity Date | The Notes will mature on February 17, 2024. |
| Interest Rate of the Notes | 11.0% per annum. |
| Interest Payment Dates of the Notes | February 17 and August 17 of each year, commencing August 17, 2021, except that the first payment of interest, to be made on August 17, 2021, will be in respect of the period from and including May 17, 2021 to but excluding August 17, 2021 |
| Ranking of the Notes | The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described under “Description of the Notes – The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors – Risks Relating to the Notes”;• effectively subordinated to the secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined under the section “Description of the Notes”). |

After the extension of the security interests over the Collateral by the Company to secure the Notes and subject to certain limitations described under “Description of the Notes – Security – Enforcement of Security”, the Notes will:

- be secured by a first priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement and shared on a *pari passu* basis with the holders of the Existing Notes and any holders of Permitted *Pari Passu* Secured Indebtedness); and
- rank effectively senior in right of payment to unsecured obligations of the Company to the extent of the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees Each of the Subsidiary Guarantors 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.

The initial Subsidiary Guarantors consist of Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited. None of the Restricted Subsidiaries organized under the laws of the PRC or the Original Issue Date Non-Guarantors will provide Subsidiary Guarantees.

A Subsidiary Guarantee and a JV Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees and the JV Subsidiary Guarantees”.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, the Exempted Subsidiaries and the Listed Subsidiaries), as promptly as practicable (and in any event within 30 calendar days) upon becoming a Restricted Subsidiary or, in the case of an Exempted Subsidiary or a Listed Subsidiary, ceases to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be, to provide a guarantee of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor.

Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be; *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (other than Exempted Subsidiaries or Listed Subsidiaries) do not account for more than 20.0% of the Total Assets of the Company.

Ranking of Subsidiary Guarantees .

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

After the extension of the security interests over the Collateral (as described below) by the Company and the Subsidiary Guarantor Pledgors, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be secured by a first priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement and shared on a *pari passu* basis with any holders of Permitted *Pari Passu* Secured Indebtedness) pledged by such Subsidiary Guarantor Pledgor; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor to the extent of the value of the Collateral pledged by the Subsidiary Guarantor Pledgor securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Ranking of JV Subsidiary Guarantees

A JV Subsidiary Guarantee may be provided by a Restricted Subsidiary or Subsidiary Guarantor in lieu of a Subsidiary Guarantee following a sale or issuance of shares by the Company or any of its Restricted Subsidiaries of Capital Stock in such Restricted Subsidiary or Subsidiary Guarantor, where such sale is for no less than 20% of the Capital Stock of such Restricted Subsidiary or Subsidiary Guarantor or following a purchase by the Company or any of its Restricted Subsidiaries of the Capital Stock of such Restricted Subsidiary, subject to certain conditions. No JV Subsidiary Guarantee exists as at the Original Issue Date.

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;

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

Security to be Granted

The Company has agreed, for the benefit of the Holders, to pledge and cause each initial Subsidiary Guarantor Pledgor to pledge, the Capital Stock of all Subsidiary Guarantors owned by the Company or such initial Subsidiary Guarantor Pledgor (the “Collateral”) (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and the obligations of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Company has also agreed, for the benefit of the Holders, to pledge, and cause each Future Subsidiary Guarantor Pledgor to pledge, the Capital Stock owned by the Company or such Future Subsidiary Guarantor Pledgor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor or additional shares of Capital Stock acquired or otherwise received by the Company or such Future Subsidiary Guarantor Pledgor of any Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, as soon as practicable (and in any event within 30 days) after such Person becoming a Subsidiary Guarantor or JV Subsidiary Guarantor or upon such additional shares of Capital Stock being acquired or received, as the case may be, to secure the obligations of the Company under the Notes and the Indenture, and of such Future Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted *Pari Passu* Secured Indebtedness which would be secured by the Collateral on a *pari passu* basis with the Notes or the Subsidiary Guarantees (subject to conditions of completion and accession to the Intercreditor Agreement). See “Description of the Notes – Security”.

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.

Intercreditor Agreement (i) The Company, (ii) the initial Subsidiary Guarantor Pledgors, (iii) the Collateral Agent, (iv) Citicorp International Limited, as trustee with respect to the 9.75% senior notes due 2018 issued by the Company on September 15, 2016 have entered into an intercreditor agreement dated as of April 6, 2017, to which Citicorp International Limited as trustee with respect to, among others, the May 2022 Notes, the March 2022 Notes, the February 2023 Notes, the June 2021 Notes, the April 2023 Notes, the October 2022 Notes and January 2021 Notes, acceded on the respective issue dates, including May 2, 2019, July 11, 2019, October 18, 2019, June 24, 2020, October 8, 2020, October 30, 2020 and January 21, 2021, respectively, and as so amended, supplemented or modified from time to time (the “Intercreditor Agreement”).

On the Original Issue Date, the Trustee for the Notes will accede to the Intercreditor Agreement, which provides, among other things, (1) that the parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent) will share equal priority and pro rata entitlement in and to the Collateral; (2) that the Collateral shall only be substituted or released and Liens only be granted on the Collateral to the extent permitted under the Debt Documents; and (3) the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto with respect to the Collateral and the Indebtedness secured thereby. See “Description of the Notes – Security – Intercreditor Agreement.”

Use of Proceeds We intend to use the net proceeds to refinance our existing indebtedness.

Optional Redemption At any time and from time to time on or after May 17, 2023, the Company may, at its option, redeem the Notes, in whole or in part, at the redemption price set forth in “Description of the Notes – Optional Redemption,” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to May 17, 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, as set forth in “Description of the Notes – Optional Redemption.”

At any time and from time to time prior to May 17, 2023, the Company may, at its option, redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 111.0% of the principal amount of the Notes, plus accrued and unpaid interest if any, to (but not including) the redemption date, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

| | |
|---|---|
| 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% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date. See “Description of the Notes – Repurchase of Notes Upon a Change of Control Triggering Event.” |
| Repurchase of Notes Upon a Delisting Event | Not later than 30 days following a Delisting Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date. See “Description of the Notes – Delisting Put Right”. |
| Additional Amounts. | <p>All payments made under or with respect to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee 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 Relevant Jurisdiction (as defined in “Description of the Notes – Additional Amounts”) unless required by law.</p> <p>Subject to certain exceptions, in the event such a withholding or deduction is required, the Company, a Surviving Person (as defined in “Description of the Notes – Consolidation, Merger and Sale of Assets”) or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts as will result in the 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. See “Description of the Notes – Additional Amounts”.</p> |
| Redemption for Taxation Reasons . | Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor 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 | <p>The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> • incur or guarantee additional indebtedness and issue disqualified or preferred stock; • make investments or other specified restricted payments; • issue or sell capital stock of Restricted Subsidiaries; |

- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted businesses;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with certain shareholders or affiliates; and
- effect a consolidation or merger.

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

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

Form, Denomination and Registration The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount 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 for Euroclear and Clearstream and registered in the name of the common depository or its nominee. Beneficial interests in the Global Note will be shown on, and transfers 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 their respective 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, in same-day funds on or about May 17, 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 and Collateral Agent Citicorp International Limited.

| | | |
|---|---|-------------|
| Paying and Transfer Agent and Registrar | Citibank, N.A., London Branch. | |
| Listing | Application will be made to the Hong Kong Stock Exchange for the listing of the Notes by way of debt issues to Professional Investors only. The Notes will be traded on the Hong Kong Stock Exchange in a minimum board lot size of US\$200,000 for as long as the Notes are listed on the Hong Kong Stock Exchange and the rules of the Hong Kong Stock Exchange so require. | |
| Ratings | The Notes are expected to be rated B3 by Moody's Investors Service. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes. | |
| Security Codes | ISIN | Common Code |
| | XS2333154867 | 233315486 |
| Governing Law | The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the Indenture will be governed by and construed in accordance with the laws of the State of New York. The relevant pledge documents are governed by the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated. | |
| Risk Factors | You should carefully consider all information in this offering memorandum before investing in the Notes. In particular, for a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors." | |

RISK FACTORS

An investment in the Notes involves significant risks. You should carefully consider the risks described below and the other information in this offering memorandum before you decide to invest in the Notes. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below actually 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, the trading price of the Notes could decline and you may lose all or part of your investment.

Risks Relating to Our Business

Our business and revenue growth depends on favourable economic conditions in the PRC, particularly the performance of the property market in cities where we develop our property development projects

We developed and sell properties in various provinces and major cities, including Anhui, Jiangsu, Changzhou, Nanjing, Nantong, Suzhou, Taizhou, Zhenjiang, Shanghai and Shenzhen of the PRC. As a result of government policies and changes in economic conditions, the performance of the property market in the cities in which our property development projects are located has fluctuated and varied in the past few years.

The PRC property market is affected by many factors, including changes in the social, political, economic and legal environment of the PRC, changes in the fiscal and monetary policies of the central government of the PRC, including all governmental subdivisions (such as provincial, municipal and other regional or local government entities) (the “PRC Government”), the lack of a mature and active secondary market for residential properties and the limited availability of mortgage loans to individuals in the PRC. We are also sensitive to changes in the economic condition, consumer confidence, consumer spending and consumer preferences of the urban Chinese population.

In the past few years, due to an increase in demand for residential properties in the PRC, there were concerns of the PRC property market overheating. In response, the PRC Government adopted measures to prevent the overheating of the PRC property market. These austerity measures may lead to changes in the PRC property market and affect property price level, market demand and supply of properties and our business performance.

We cannot assure you that the growth of the property market in the PRC and property prices will continue at previous levels or will not decline. Any oversupply of properties, decline in demand for or prices of properties in the PRC, or the economy of the PRC, particularly in cities where we have operations, may have a material adverse effect on our business, results of operations and financial condition.

Our substantial level of indebtedness may affect our business, financial condition, results of operations and prospects

We maintained a substantial level of borrowings to finance our operations for the years ended December 31, 2018, 2019 and 2020 and after the offering of the Notes, we may continue to have a substantial level of borrowings. As of December 31, 2018, 2019 and 2020, our total outstanding bank and other borrowings amounted to approximately RMB14,800.9 million (restated), RMB12,130.2 million and RMB12,632.6 million (US\$1,936.0 million), respectively and as of the same dates, our total outstanding balance of senior notes amounted to approximately RMB7,212.5 million (restated), RMB5,274.8 million and RMB8,753.0 million (US\$1,341.5 million), respectively. Our net gearing ratio, calculated by dividing our net debt (bank and other borrowings, senior notes, net of bank balances and cash and restricted/pledged bank deposits) by our total equity, was approximately 145% (restated), 78%

and 60%, as of December 31, 2018, 2019 and 2020, respectively. As of December 31, 2020, our amount of debt due on demand or within one year was RMB7,065.8 million (US\$1,082.9 million) and due within one to five years was RMB14,319.9 million (US\$2,194.6 million).

Our indebtedness could have an adverse effect on us by: (i) increasing our vulnerability to adverse developments in general economic or industry conditions, such as significant increases in interest rates; (ii) limiting our flexibility in the planning for, or responding to, changes in our business or the industry in which we operate; (iii) limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding; or (iv) restricting us from making strategic acquisitions or taking advantage of business opportunities.

In addition, we are subject to certain restrictive covenants under the terms of our borrowings, which may restrict or otherwise adversely affect our operations. These covenants may restrict, among other things, our ability to incur additional debt or provide guarantees, incur liens, pay dividends or distributions on our or our subsidiaries' capital stock, repurchase our or our subsidiaries' capital stock, prepay certain indebtedness, repay shareholders' loans, reduce our registered capital, sell, transfer, lease or otherwise dispose of property or assets, make investments and engage in mergers, consolidation or other change-in-control transactions. We may also be required to pledge land use rights or properties under certain financing contracts. We believe that we have obtained all necessary consents for incurring additional indebtedness, but we cannot assure you that the lending banks will have the same view. In addition, some of the loans may have restrictive covenants linked to our or our subsidiaries' financial performance, such as maintaining a prescribed maximum debt-to-asset ratio or minimum profitability levels during the term of the loans.

In the future, we may incur additional indebtedness to complete our projects under development and projects held for future development and to acquire land resources, which could intensify the risks we face as a result of our indebtedness.

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 the then prevailing economic conditions and financial, business and other factors, many of which are beyond our control. If we are unable to fulfil our repayment obligations under our borrowings, or are otherwise unable to comply with the restrictions and covenants in our current or future loan and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the lenders may accelerate the repayment of outstanding debt or, with respect to secured borrowings, enforce the security interest securing the loan. Any cross-default and acceleration clause, including those contained in the Indenture, may also be triggered as a result. As a result, any default under any borrowing agreement may cause the acceleration of repayment of not only such borrowing but also other debt, including the Notes, or result in a default under our other agreements, including the Indenture. If any of these events occurs, we cannot assure you that our assets and cash flow would be sufficient to repay all of our indebtedness, or that we would be able to obtain alternative financing on terms that are favourable or acceptable to us. As a result, our cash flow, cash available for distributions, results of operation and financial condition may be materially and adversely affected.

We may not be able to acquire suitable land for future development at reasonable prices or at all

We derive a significant portion of our revenue from the sale of properties that we have developed. It is important that we identify suitable land for future development and replenish our land reserves to support a steady supply of properties for sale.

The supply of land suitable for development in cities into which we plan to expand may be limited, and the costs of acquiring land in many of these cities may fluctuate. We may also need to compete with other property developers which may be interested in sites we have identified. Competition among property developers can be further intensified by land policies adopted by the PRC Government and local governments which, for instance, regulate the means of acquiring land. Any

changes in land policies of the PRC Government with regard to land supply and development may lead to an increase in our costs of acquisition and limit our ability to successfully acquire land at reasonable prices. We cannot assure you that we will be able to successfully acquire any or all of the land use rights for projects planned for future development at reasonable prices, or at all, and this may have a material adverse effect on our business, results of operations and financial condition. Please see “– Risks relating to our industry – We are subject to extensive governmental regulations and may be affected by further measures implemented by the PRC Government that aim to control the growth of the property sector” for further details. For additional information on the regulatory procedures and restrictions on land acquisition in the PRC, please see “Regulatory Overview”.

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

Since early March 2020, the outbreak of COVID-19, a highly infectious novel coronavirus initially detected toward the end of 2019, has started a pandemic. 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 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.

According to the data released on April 17, 2020 by the National Bureau of Statistics, China’s first quarter GDP of 2020 contracted by 6.8% in 2020 compared with the first quarter of 2019. The PRC real estate market in general is under pressure in the short term as the COVID-19 pandemic has curbed on-site sales, though the impact started to ease starting from April 2020. According to the data released by the National Bureau of Statistics on April 17, 2020, China’s real estate investment in the first quarter of 2020 amounted to RMB2,196.3 billion, representing a decrease of approximately 7.7% compared with the first quarter of 2019. According to the data released by the National Bureau of Statistics on July 16, 2020, China’s GDP in the first half of 2020 was RMB45,661.4 billion, representing a decrease of 1.6% from the first half of 2019. Compared with the year on year (y-o-y) decline of 6.8% in the first quarter of 2020, the decrease narrowed by 5.2 percentage points. The national real estate investment in the first half of 2020 was RMB6,278.0 billion, representing a 1.9% y-o-y increase, which, compared with the y-o-y decrease of 0.3% from January to May 2020, indicates a rebound in real estate investment.

Several cities in China where we have land bank and operations were under a lockdown and have 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 was 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 response to national and the provincial government policy to COVID-19, we have provided rental reduction for our clients for January and February, 2020. The COVID-19 pandemic may further create negative economic impact and increase volatility in the PRC and global market and continue to cause increasing concerns over the prospects of the PRC residential property market, which may materially and adversely affect the demand for properties and property prices in China.

Our ongoing or future investments or acquisitions may not proceed as planned and, even after their completion, may have a material adverse effect on our ability to manage our business

We may make strategic investments and acquisitions that complement our operations. However, our ability to make successful strategic investments and acquisitions depend on a number of factors, including but not limited to our ability to identify suitable targets, obtain required financing on reasonable and favourable terms and governmental approvals and the fulfilment of conditions precedent

under such investment or acquisition agreements. In the event that we fail to identify suitable targets or are prevented from making such strategic investments or acquisitions due to financial, regulatory or other constraints, we may not be able to effectively implement our investment or expansion strategies.

Acquisitions typically involve a number of risks, including, but not limited to: (i) difficulties in integrating the operations and personnel of the acquired businesses; (ii) difficulties in maintaining uniform standards, controls and policies across the expanded group; (iii) liabilities associated with the acquired businesses that were unknown at the time of acquisition; and (iv) adverse impact on our results of operations due to amortization and/or impairment for goodwill associated with the acquisitions.

Further, we cannot assure you that we will be able to make acquisitions or investments on favourable terms or within a desired time frame. There is also no assurance that such acquisitions or investments would yield the expected level of return. In addition, we may require additional financing in order to make such acquisitions and investments. Debt financing may result in an increase in the level of our indebtedness. Any of these factors could have a material adverse effect on our business, results of operations, financial condition and prospects.

We rely on our external construction contractors for all of our construction works, and the quality of their work could affect our reputation, business, results of operations and financial condition

We outsource construction works for all our projects, such as foundation digging, general construction and installation of equipment, to external construction contractors. We usually conduct an open tender process and consider a wide range of factors to select our external construction contractors. Please see “Our Business – Our key property development process – Construction and quality control – Construction”. We cannot assure you that these external construction contractors will provide satisfactory services or complete work within the agreed timeframe. If we need to replace an external construction contractor or take other actions to remedy any unsatisfactory work, this may have a material adverse effect on the costs and construction progress of our projects.

If we expand into other geographical locations in the PRC, we cannot assure you that we will be able to find sufficient high-quality construction contractors due to varying levels of development of property markets in different cities and our lack of familiarity with construction contractors in different cities.

In accordance with applicable PRC laws and regulations, we provide statutory warranties on the quality of properties we sell to our customers. Generally, we receive quality warranties from external construction contractors we engage to construct our development projects. If claims are brought against us under our warranties, and if the relevant construction contractor fails to indemnify us for these claims in a timely manner, or at all, or if the money retained by us is insufficient to cover our compensation obligations under the warranties, we could incur significant expenses to resolve these claims or face delays in rectifying the defects. This may harm our reputation and have a material adverse effect on our reputation, business, results of operations and financial condition.

We may not be successful in managing our expansion into new cities or regions

We have focused primarily on developing properties in Jiangsu Province and Anhui Province, and we intend to expand into other regions in the PRC. For further details on our expansion plan, please see “Our Business – Business strategies – We will further expand our operations in Jiangsu Province and other parts of China in which we currently do not have a presence”.

When executing our expansion plan, we may face difficulties such as inadequate knowledge of and experience with local regulatory customs and policies, customer preferences and behaviour, business environment and competition with developers who may have a well-established local presence in the market. Although we believe that we are capable of making forward-looking assessment of the market and planning strategically, we cannot assure you that our market assessment will turn out to be accurate,

or that we will execute our expansion plan successfully, especially in light of uncertain economic conditions as a result of economic downturn or global financial crisis. There can be no assurance that our expansion plan will generate positive returns on our investment.

Apart from external challenges, we may also face difficulties in managing construction and delivery of our projects. Although we have formulated an operation and execution model with standardised project design plan for swift adaptation, failure to observe our standards or inconsistencies in compliance may have an adverse impact on product quality and brand reputation. Further, expanding into new geographical locations requires a significant amount of capital and management resources, and we will need to manage our workforce to match our expansion plan. Any of these factors could have a material adverse effect on our business, results of operations and financial conditions.

The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely affect our profitability and profits derived from changes in fair value upon transfer from inventories of properties to investment properties

We are required to reassess the fair value of our investment properties at the end of each reporting period. Under HKFRS, gains or losses arising from changes in the fair value of our investment properties are included in our consolidated income statement for the period in which they arise. Our investment properties were revalued by an independent property appraiser as of December 31, 2018, 2019 and 2020 on an open market and existing use basis, which reflected market conditions on the respective dates. Based on these valuations, we recognised the aggregate fair value of our investment properties and relevant deferred tax on our consolidated statements of financial position and increases in fair value of investment properties and movements of the relevant deferred tax on our consolidated income statement. For the years ended December 31, 2018 and 2019, our increases in fair value of investment properties were RMB365.9 million (restated) and RMB437.2 million, respectively. In 2020, we recorded fair value loss on investment properties of RMB177.5 million (US\$27.2 million)

Despite their impact on the reported profit, fair value gains or losses do not change our cash position as long as the relevant investment properties are held by us. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. As a result, we cannot assure you that changes in the market conditions will continue to create fair value gains on our investment properties or that the fair value of our investment properties will not decrease in the future. In addition, the fair value of our investment properties may materially differ from the amounts we would receive in actual sales of the investment properties. Any significant decreases in the fair value of our investment properties or any significant decreases in the amount we receive in actual sales of our investment properties as compared with the recorded fair value of such properties may result in a loss or would materially and adversely impact our results of operations. For the year ended December 31, 2018 and 2020, our increases in fair value of investment properties upon transfer from inventories of properties were RMB520.9 million (restated) and RMB21.2 million (US\$3.2 million), respectively. For the years ended December 31, 2019, there were no transfers from inventories of properties to investment properties.

For the years ended December 31, 2018, 2019 and 2020, we transferred inventories of properties to investment properties by appropriating those properties developed by us, which had not been contracted for sale, for leasing with a view to earning rental income. In accordance with paragraph 57(d) of HKAS 40 Investment Property, a transfer of our inventories of properties to investment properties takes place when and only when there is a change in use evidenced by the commencement of a lease agreement entered into with a tenant. The difference between the fair value of the property at that date and its previous carrying amount is recognized as profit or loss. Accordingly, our profits attributable to changes in fair value upon transfer from inventories of properties to investment properties for the years ended December 31, 2018, 2019 and 2020 are non-recurring in nature, and we may reduce the level of transfer or not at all effect any transfer from inventories of properties to investment properties in the future, which, in turn, may materially affect our profitability.

We provided relatively long rent-free periods to our tenants and may suffer impairment loss of rent receivables if our tenants terminate their leases during or shortly after the rent-free periods

For the years ended December 31, 2018, 2019 and 2020, we leased certain self-developed commercial properties to generate recurring income. We offered some of our tenants rent-free periods which effectively reduced the rent payable to us during the term of their respective leases.

Our existing leases may be terminated by the tenants before their expiration, especially during an economic downturn. Moreover, our tenants may terminate existing leases during or shortly after the relevant rent-free periods, which may result in an impairment loss of rent receivables from our tenants. We cannot assure you that we will be able to renew leases with our tenants or find replacement tenants upon expiration or early termination of existing leases at the same or better terms or at all. We may have to reduce our rent to attract potential tenants, which will, in turn, reduce our rental yield and have a negative impact on our rental income. In the event that we fail to renew leases with our tenants or re-lease vacant properties upon expiration or early termination of existing leases, or if we renew our leases or re-lease vacant properties on less favourable terms, our business, financial conditions and results of operations may be materially and adversely affected.

Any adverse publicity or other adverse development that may affect our reputation, brand image or the “Jia Yuan” or “佳源” brand generally and any failure in renewing the non-exclusive licence to use such brand may result in a material adverse effect on our business, results of operations and financial condition

We rely on our reputation and brand image to attract potential customers to our properties. Reputation and brand image are largely based on consumer perception with a variety of subjective qualities. Isolated business incidents, negative publicity concerning us or our properties, whether true or not, may degrade consumer confidence and in turn have a material adverse effect on our business, results of operations and financial condition. We cannot assure you that there will not be any false, inaccurate or negative media reports about us or our projects in the future.

In particular, we market our products under the “Jia Yuan” or “佳源” brand for which we have obtained a license to use from Jin Jiang Investment Limited (錦江投資管理有限公司) (“Jin Jiang Limited”) and Zhejiang Jia Yuan Property Group Co., Ltd (浙江佳源房地產集團有限公司) (“Zhejiang Jia Yuan Group”), which are companies wholly owned by Mr. Shum Tin Ching. For details, please see “Our Business – Intellectual property rights”. However, our license to use these trademarks and brand names is non-exclusive. In this regard, the companies controlled by Mr. Shum from time to time (other than members of our Group) which are principally engaged in real estate development (the “Private Group”) has marketed certain of its property development projects under the “Jia Yuan” or “佳源” brand. Any negative publicity or disputes regarding products owned by others and marketed under the licensed “Jia Yuan” or “佳源” brand, such as the property development projects of the Private Group, could adversely affect public perception of our products. Any impairment of our ability to continue selling products under the brand, or any significant damage to the brand’s image could adversely affect our business, results of operations and financial condition. Further, under our trademark license agreement dated July 27, 2015, our non-exclusive licence to use the “Jia Yuan” and “佳源” brand remains effective only for a period of 10 years. If the licensor for any reason decides not to renew our licence upon its expiration, we cannot continue our operations under such trademarks, which may have a material adverse effect on our business, results of operations and financial condition.

We may fail to obtain requisite certificates, licenses, permits or governmental approvals for our property development operations in a timely manner

The property industry in the PRC is heavily regulated. Under PRC laws, rules and regulations, we are required to obtain and maintain various certificates, licences, permits and governmental approvals, including qualification certificates, land use rights certificates, construction land planning permits issued by local urban zoning and planning bureaux or competent authorities in the PRC (建設用地規劃許可證) (“construction land planning permits”), construction works commencement permits issued by local

construction committees or competent authorities in the PRC (建築工程施工許可證)(“construction works commencement permits”), construction works planning permits issued by local urban zoning and planning bureaux or competent authorities in the PRC (建設工程規劃許可證)(“construction works planning permits”), pre-sale permits authorizing a developer to start the pre-sale of a property under construction (商品房預售許可證)(“pre-sale permits”) and construction works completion inspection acceptance certificates/records issued by local urban construction bureaux or competent authorities in the PRC with respect to completion of property projects (竣工驗收備案)(“completion certificates”) during various stages of property development. We are required to meet certain conditions before the relevant government authorities issue or renew any certificate, licence or permit. Please see “Regulatory Overview” for further details.

We cannot assure you that our project companies will be able to renew their qualification certificates or upgrade their qualifications in a timely manner. If we or our project companies fail to renew qualification certificates before they expire, our applications for pre-sale or other necessary permits will be rejected, and this may have a material adverse impact on our business, results of operations and financial condition.

We cannot assure you that we will be able to adapt to new laws, rules and regulations as they come into effect from time to time with respect to the property development industry or that we will not encounter other material delays or difficulties in fulfilling the conditions to obtain or renew all necessary certificates, licenses or permits for our operations in a timely manner, or at all. If we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary certificates, licenses or permits for any of our major property development projects, we will not be able to continue with our development plans, and our business, results of operations and financial condition may be adversely affected. If we proceed with our operations without these requisite certificates, we may be penalized by the relevant government authorities, which may, in turn, adversely affect our business, results of operations and financial conditions. In 2015, we were fined an aggregate of RMB47,388 by government authorities for commencing construction works without the required construction works commencement permits. We had fully settled these fines and received from the relevant government authorities a written confirmation that these penalties had been settled in full.

We may not be able to complete or deliver our property development projects on time and we may be subject to liabilities as a result of such delays

Various factors may materially and adversely affect the progress of a property development project, including delays in obtaining necessary permits or governmental approvals, delays in delivery of land to us, changes in governmental policies, changes in market conditions, labour disputes, poor work quality of construction contractors, construction accidents and adverse weather conditions. We may also experience delays in obtaining the relevant land, which may adversely affect our business, results of operations and financial conditions.

If we fail to complete the properties on time, our customers may demand compensation for late delivery under the sales contracts or relevant PRC laws and regulations. For example, we experienced delays in delivering properties to our customers in three projects in 2016. As a result of delay, we paid approximately RMB0.8 million. Further, if our delay extends beyond a specified period, our customers may terminate the sales contracts and claim compensation. In addition, any delays in completing the construction works on time may expose us to penalties and claims by the relevant government authorities.

We cannot assure you that we will not experience any significant delays in the completion or delivery of our properties, or that we will not be subject to any liabilities for any such delays. If we experience a delay and we are liable to compensate for any such delay, this may have a material adverse effect on our business, results of operations and financial condition.

The PRC Government may impose fines or other penalties on us or revoke our land use rights if we fail to comply with the terms of the land grant contracts or listing-for-sale confirmation letters

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

Under current PRC laws and regulations, we may be subject to late penalties as stipulated in the land grant contracts if we fail to pay any outstanding land premium by the stipulated deadline. If we fail to commence development within one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may impose an idle land fee of up to 20% of the land premium on us unless the delay was caused by government actions or force majeure events. If we fail to commence development within two years from the commencement date stipulated in the land grant contract, the land may be forfeited unless the delay was caused by government actions or force majeure events. We cannot assure you that we will be able to fully comply with our obligations under the land grant contracts or listing-for-sale letters in the future due to factors beyond our control, or that our property development projects will not be subject to idle land penalties or forfeiture by the government due to delays. If any of the above happens, we may lose both the opportunity to continue our property development project and our previous investment in the land and this may have a material adverse effect on our business, results of operations and financial condition.

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

Consistent with industry practice, we have arrangements with certain banks where we provide guarantees for mortgage loans taken out by our customers to purchase our properties. Consistent with industry practice, we do not conduct independent credit evaluations on our customers but rely on the credit checks conducted by the mortgagee banks. Typically, these guarantees terminate when the customer obtains the building ownership certificate issued by relevant PRC governmental authorities with respect to the ownership rights of buildings (房屋所有權證)(“building ownership certificate”) and the mortgage registration for the relevant property is completed. The duration of our guarantee varies on a case-by-case basis subject to, among other things, the time at which our customers obtain the relevant mortgage loans. Since: (i) the delivery of properties to our customers generally takes place within two years from the date of the relevant sales contract; and (ii) it is our policy to assist our customers to obtain the relevant building ownership certificates within six months from, among other things, the date of delivery of the relevant properties, the duration of our guarantees are generally within two and a half years from the date of the relevant sales contract. During the years ended December 31, 2018, 2019 and 2020, we provided guarantees of approximately RMB11,393 million (restated), RMB13,290 million and RMB10,776 million (US\$1,651 million), respectively. For further details on our guarantees for our customers’ mortgage loans, please see “Our Business – Our key property development process – Sales and marketing – Sales”. If a purchaser defaults on a mortgage loan, we may be required to pay off the mortgage by repaying the outstanding mortgage loans together with any accrued interest and penalties owed by the defaulting purchaser to the banks. If we fail to do so, the mortgagee bank may auction the underlying property and recover any additional amount outstanding from us as the guarantor of the mortgage loans. We may be required to honour our guarantees in the event our customers default in repayment and this may have an adverse material impact on our business, results of operations and financial condition.

Our results of operations are largely dependent on the development and delivery schedule of our products which fluctuate, and such fluctuations make it difficult to predict our future performance

As our primary source of revenue is the sale proceeds of properties that we develop, our future cash flows and revenue depend on the timing of pre-sales and sales of our properties. In addition, our results of operations are also affected by other factors, including the schedule of our property development projects, the demand for our properties, any changes in our costs of development and our

revenue recognition policy. According to our revenue recognition policy, we recognize revenue upon delivery of properties to our customers. There is a time difference between the pre-sale and completion of a property development project. The effect of this time difference is that the time at which our GFA is sold may not correspond with the time when we record a major part of our revenue if the properties are not sold and delivered within the same financial period.

Our revenue and profit during any given period generally reflect property purchases in the past. Accordingly, our results of operations for any given period may not be indicative of the actual demand, pre-sales or sales during that period or of results that may be expected for any future period.

We may be required to provide refunds to our customers or be subject to adverse legal consequences if we fail to obtain the relevant CAD Utilization Permits or otherwise maintain the validity of the CAD Utilization Permits or government confirmations which have been granted or provided to us

We transfer or lease the rights to use car parks constructed principally for civil air defence purposes (“CAD Car Parks”). Under the Civil Air Defence Law (中華人民共和國人民防空法), the National Civil Air Defence Office issued the Administrative Measures for Developing and Using the Civil Air Defence Property at Ordinary Times (人民防空工程平時開發利用管理辦法), the Administrative Measures for Maintaining the Civil Air Defence Property (人民防空工程維護管理辦法) and the Measures of Jiangsu Province for the Implementation of the Civil Air Defence Law of the People’s Republic of China (2008 Amendment)(江蘇省實施《中華人民共和國人民防空法》辦法(2008年修正)) (the “Jiangsu CAD Measures”) (collectively “CAD Laws”), we are allowed to manage and use the civil air defence facilities we develop during peacetime for profit. As of December 31, 2016, we had obtained the Utilization Permits During Peacetime (平時使用許可證)(“CAD Utilization Permit”) for Yangzhou Park Number One, Jiayuan Centurial Garden and Jiayuan Centurial Villa. In respect of Jiayuan Centurial Scenery Park and Oriental Paris City, we received written and oral confirmations from relevant government authorities in June and August 2015 confirming that: (i) we are authorized to lease and/or transfer the right to use all the CAD Car Parks we develop; and (ii) it is not necessary for us to obtain any permit or approval for our operations with respect to the CAD Car Parks. However, we cannot assure you that we can: (i) obtain the CAD Utilization Permits from relevant authorities for the usage rights of our CAD Car Parks that we intend to transfer or lease in the future; or (ii) maintain the validity of any CAD Utilization Permit or government confirmation that has been granted or provided to us. Any unauthorized transfers or leases of the right to use the CAD Car Parks may result in fines ranging between RMB10,000 and RMB50,000 and a requirement to rectify within a specified period of time.

If we fail to obtain the relevant CAD Utilization Permits or if the relevant government authorities revoke the CAD Utilization Permits or government confirmations granted or provided to us, our transfers of the usage rights of the CAD Car Parks may be deemed invalid. If there are any disputes regarding our transfers of the right to use the CAD Car Parks, we may be adjudicated or ordered to retrieve the right to use the CAD Car Parks from our customers and refund the consideration to our customers.

Under the CAD Laws, the rights to use CAD Car Parks during peacetime and to profit from the usage rights may not impair their function as civil air defence facilities. The design, construction, and quality of the civil air defence facilities must conform to the protection and quality standards stipulated by the PRC Government. If our customers fail to maintain the CAD Car Parks in accordance with the applicable laws and regulations and our transfer of the rights to use the CAD Car Parks is deemed invalid, we may be subject to adverse legal consequences.

In the event that the PRC Government declares a state of war, the PRC Government may take over the civil air defence facilities as civil air defence shelters. If our customers fail to deliver the CAD Car parks at the request by the PRC Government and our transfer of the rights to use the CAD Car Parks is deemed invalid, we may be subject to adverse legal consequences and government sanctions.

If any of the above happens, our business, results of operations and financial conditions may be materially and adversely affected.

Our profitability and results of operations are affected by changes in interest rates

We finance our property development projects primarily through proceeds from pre-sale and sale and borrowings from banks, trust companies, asset management companies and other persons. Interest rates constitute a major part of our costs of financing through external borrowings, and changes in interest rates have affected, and will continue to affect, our financing costs of property development projects. Our borrowings are primarily denominated in Renminbi, and the interest rates on our bank borrowings are primarily affected by the benchmark interest rate set by the PBOC. In the past few years, the benchmark interest rates fluctuated significantly. As most of our financing costs are capitalized and recognized as cost of sale upon actual sale, any increase in capitalized financing costs may adversely affect our gross profit margin in the future. On the other hand, trust companies and asset management companies generally do not link their interest rates to the PBOC benchmark interest rates and typically charge interest rates higher than those charged by commercial banks. Further, changes in interest rates may affect our customers' ability to secure mortgage loans on acceptable terms, which, in turn, may affect their ability to purchase and demand for our properties. Please see our audited consolidated financial statements included elsewhere in this offering memorandum for further details regarding our cash flow interest rate risk.

We cannot assure you that the PBOC will not raise benchmark lending rates further or otherwise discourage bank lending. In the event interest rates are further increased which lead to increase in our financing costs and/or decrease in demand for our properties, our business, results of operations and financial condition may be adversely affected.

Fluctuations in price of construction materials and labour costs may adversely affect our results of operation

We engage construction contractors for construction of our projects, and such contractors are responsible for procuring raw materials such as steel and cement. In recent years, the prices of steel and cement fluctuated.

Our contracts with construction contractors usually provide that we will adjust payment to our contractors if prices of certain construction materials increase beyond the prescribed price range. Please see "Our Business – Procurement" for further details. In addition to prices of raw materials, we also expect labour costs in the PRC to continue to increase in the future.

Further, we procure construction materials and components such as ceramic tiles, doors, intercommunication equipment and elevators directly from our suppliers. In the event of a material increase in our costs of construction which cannot be passed to our customers, our business, financial conditions and results of operations may be materially and adversely affected.

Our success depends on the continuing service of our senior management

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of the directors of our Company ("Directors", each a "Director") and members of our senior management. If we lose the services of any of our key executives and cannot replace them in a timely manner, our business may be materially and adversely affected.

In addition, our success depends on our ability to attract and retain talented personnel. We may not be able to successfully attract, assimilate or retain all the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain

competent personnel and any increase in staffing costs to retain such personnel could have a negative effect on our ability to maintain our competitive position and to grow our business. As a result, our business, results of operations and financial condition may be materially and adversely affected.

We may not have adequate insurance coverage to cover our potential liabilities or losses

We face various risks in the course of our business operations and may have inadequate or even no insurance coverage for those risks. In addition, in line with general industry practice in the PRC, we do not maintain insurance for risks associated with every aspect of our operations. Please see “Our Business – Insurance” for further information. In addition, certain losses such as natural hazards, civil disorder are not covered by insurance available on commercially reasonable terms. If any of the above occurs and we suffer losses, damages or liabilities in the course of our business operations and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our business, results of operations and financial condition may be materially and adversely affected.

We may be subject to fines or penalties if we fail to comply with any applicable laws, rules or regulations

We did not fully comply with certain applicable laws and regulations during the years ended December 31, 2018, 2019 and 2020. Non-compliance incidents included: (i) commencing construction works before obtaining construction works commencement permits; (ii) tax non-compliance; (iii) deviation from construction works planning permit; (iv) failure to make adequate social insurance and housing provident fund contribution; and (v) inter-company loans. Although we have implemented internal control measures to prevent occurrence of similar incidents in the future, we cannot assure you that there will not be any non-compliance incidents within our Group in the future. In the event that we breach any applicable laws, rules or regulations, we may be subject to fines or penalties arising from such non-compliance incidents, which may have a material adverse effect on our business, results of operations and financial condition.

We may be subject to potential liability for environmental problems which may result in losses

We are subject to a variety of laws and regulations concerning the protection of the environment. In environmentally sensitive regions or areas, project development activities may be severely restricted or prohibited. Compliance with health and environmental laws and conditions may result in delays and increase in our compliance costs. Please see “Our Business – Environmental matters” for further details.

As required by PRC laws, we have engaged independent third-party environmental consultants to conduct environmental impact assessment for our property development projects. These environmental impact assessments were submitted to the relevant government authorities for approval before beginning development. However, the environmental impact assessments may not address all environmental liabilities or their full impact and we may not be aware of the full exposure of all our material environmental liabilities. If any portion of a project is found to be in breach of relevant environmental standards, the project may be suspended and we may be fined or penalized. If any of the above occurs, it may have a material adverse impact on our business, results of operations and financial condition.

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

We may from time to time be involved in disputes with various parties involved in the development and sale of our properties, including contractors, suppliers and purchasers. Such disputes may lead to legal or other proceedings and they may damage our reputation, increase our costs of operations and divert our management’s attention from daily business operations. In addition, where regulatory bodies or governmental authorities disagree with our ways in respect of our operations, we may be subject to administrative proceedings and unfavourable decrees that could result in liabilities and delays to our property developments. We cannot assure you that we will not be so involved in any major legal or other proceedings in the future.

Our controlling shareholders and related parties may exercise influence over certain of our affairs and may have interests which differ from ours

As of December 31, 2020, Mingyuan Group Investment Limited (“Mingyuan Investment”), which is wholly-owned by Mr. Shum Tin Ching, was our largest shareholder with a 69.74% direct shareholding interest. In particular, Mr. Shum Tin Ching serves as our current Chairman of our board of Directors (the “Board”) and non-executive Director. Accordingly, our controlling shareholders will be able to exert significant influence on our management, strategic direction, business and operations, subject to the Listing Rules and other applicable laws. The interests of our controlling shareholders may differ significantly from our interests and our other shareholders and creditors, including you, and we cannot assure you that our controlling shareholders will exercise influence over us in a manner that is in our best interests and those of our other shareholders and creditors or in a manner that will not conflict with our interests and those of our other shareholders and creditors.

We may not be able to sell our investment in real properties at prices or on terms satisfactory to us

In general, investment in real properties is relatively illiquid compared with other forms of investment. We may need to dispose of certain investment properties in the event of fluctuating economic, financial and investment conditions. We cannot assure you that we will be able to sell such investment properties at prices or on terms satisfactory to us.

The valuation attached to our property interests contains assumptions that may or may not materialize

Under HKFRS, we are required to reassess the fair value of our completed investment properties as of the date of every statement of financial position. Our valuations are generally based on a direct comparison approach, under which our investment properties are directly compared with other comparable properties of similar size, character and location, in order to provide a fair comparison of capital values, and an income approach by taking into account the net rental income of properties.

Gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statements of comprehensive income in the period in which they arise. Our investment properties were revalued as of December 31, 2018, 2019 and 2020, on an open market and existing use basis which reflected market conditions on those dates. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to properties under development and planned for future development, the valuations are based on assumptions that (i) the properties will be developed and completed in accordance with the development proposals, (ii) regulatory and governmental approvals for the proposals have been obtained, (iii) all premiums in connection with the properties have been paid and the properties are free of encumbrances and other restrictions, and (iv) we are in possession of the proper legal titles and are entitled to transfer the properties at no extra land premium. For properties owned by the project companies in which we have an attributable interest of less than 100.0%, the valuation assumes that the interest of the relevant project companies in the aggregate value of the property or business is equal to our proportionate ownership interest in the relevant company or business.

Accordingly, the valuations are not a prediction of the actual value we expect to realize from these properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values.

The construction business and the property development business are subject to claims under statutory quality warranties

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they develop or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are

unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income

The Enterprise Income Tax Law (“EIT Law”) and the implementation regulations to the EIT Law issued by the PRC State Council became effective on January 1, 2008. 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% enterprise income tax rate on their global income. It is, however, currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in China. The SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in Accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) in April 2009 which defines the term “management body” in respect of enterprises that are established offshore by PRC enterprises. However, no definition of “management body” is provided for enterprises established offshore by private individuals or foreign enterprises like us. As such there is uncertainty whether we will be deemed to be a PRC “resident enterprise” for the purposes of the EIT Law. As of the date of this offering memorandum, the relevant PRC tax authorities have not notified us that, nor have we sought clarification as to whether, we or any of our non-PRC subsidiaries are considered a PRC resident enterprise for the purpose of the EIT Law. Substantially all of our management is currently based in China, and therefore, we may be treated as a PRC “resident enterprise” for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations.

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

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur, including the Notes. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any) is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Our restricted reserves are not distributable as cash dividends. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, pay dividends or otherwise fund and conduct our business.

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

In accordance with PRC regulations on LAT, all persons including companies and individuals that receive income from the sale or transfer of land use rights, properties and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the property. According to a circular issued by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) (“SAT”), effective 1 February 2007, LAT obligations must be settled with the relevant tax bureau within a specified time frame after completion of a property development project. For the years

ended December 31, 2018, 2019 and 2020, we incurred LAT of approximately RMB1,030.7 million (restated), RMB1,131 million and RMB1,058.6 million (US\$162.2 million), respectively. Please see “Regulatory Overview” for further details on PRC regulations on LAT.

Pending settlement of the LAT with the relevant tax authorities, we make provisions for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time. For the purpose of computing LAT provisions, we apportion deductible items such as land costs across various phases of our property development projects. As we calculate provisions for LAT based on our own apportionment of deductible expenses across development phases, the actual amount of LAT is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. Given the time gap between when we make provision for LAT and when the LAT payable is settled in full, the relevant tax authorities may not agree with our own apportionment of deductible expenses or our other bases adopted in the calculation of LAT. If we substantially underestimated the LAT payable for a particular period, this could have a material adverse effect on our results of operations for the subsequent financial period.

Risks Relating to Our Industry

PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail property development. On March 26, 2005, the General Office of the State Council promulgated the Circular on Duly Stabilizing the Prices of Residential Properties (關於切實穩定住房價格的通知) requiring measures to be taken to restrain the prices of residential properties from increasing too fast. On May 9, 2005, the General Office of the State Council approved the Opinion on Improving the Works on Stabilizing the Prices of Residential Properties (關於做好穩定住房價格工作的意見) issued by seven departments of the State Council, setting out guidelines for the relevant PRC authorities to control the rapid growth in the residential property market. On May 24, 2006, the General Office of the State Council approved the Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見) issued by nine departments of the State Council. On September 27, 2007, PBOC and CBRC (the predecessor of the CBIRC) issued the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知). These measures, among others, imposed various restrictions on lending funds to property developers and extending mortgage loans to property purchasers. These measures also provide that the total area of units with a GFA of less than 90 square meters must equal at least 70% of a residential housing project’s total GFA. On April 17, 2010, the State Council issued the Notice on Firmly Preventing Property Price from Increasing too rapidly 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)(the “April 17 Notice”), pursuant to which the State Council raised the minimum down payment for second home purchases to 50% and set a minimum 30% down payment on first homes with a GFA of more than 90 square meters. The notice also stipulates that interest rates for mortgage loans for second homes cannot be lower than 110% of PBOC benchmark lending rate. We cannot assure you that the governmental authorities will not require us to modify our development plans or that these new measures will not adversely impact our business due to the uncertainties involved in implementing these new measures.

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly issued the 171 Opinion which aims to regulate access by foreign investors to the domestic property market and to strengthen supervision over property purchases by foreign-invested enterprises. The 171 Opinion provides for, among other things, stricter standards for a foreign institution or an individual when purchasing real property in the PRC that is not intended for personal use. On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and

Supervision of Real Estate Industry with Direct Foreign Investment (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)(the “Notice 50”) and revised on October 28, 2015, which imposed additional restrictions and requirements on foreign investment in the real estate industry.

On February 20, 2013, the State Council announced five measures on the control of the PRC property market, including: (1) stabilizing property prices. Each major city in China is required to compile and announce its target for 2013 on how to control the prices of newly completed commodity properties; (2) strictly limiting speculative purchase of properties. Restrictions on purchasing commodity properties should be strictly implemented; expand the scope of experimental taxation against residential properties held by individuals; (3) increasing the supply of small to medium-sized commodity properties and lands; (4) accelerating the construction of housing for low-income individuals; and (5) strengthening the supervision of the property market.

On February 26, 2013, the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (關於繼續做好房地產市場調控工作的通知) which, among other restrictive measures, provides that further restraining measures are to be adopted to strengthen the regulation of the real estate market. Major cities which have implemented the commodity housing purchase restrictions are required to enforce purchase restrictions in all administrative areas of cities and restricted housing are to include new commodity housing and second-hand housing. Non-local residents who have one or more residential property and fail to provide one-year or longer tax payment certificates or social insurance payment certificates will be barred from purchasing any residential properties located in the administrative areas subject to restrictions. For cities where housing prices are increasing at an excessively high rate, local branches of the PBOC may further raise the down-payment rate and mortgage interest rate for the purchase of a second residential property. In addition, the Notice stipulates that the state will strictly enforce a 20% tax on profits from sales of homes. Financial institutions, subject to credit requirements being satisfied, will prioritize requests for mortgages for ordinary commodity housing construction projects in which medium and small housing units constitute 70% or more of the total units in such construction project.

On April 1, 2017, the Ministry of Land and Resources and Ministry of Housing and Urban-Rural Development issued the Circular of the Ministry of Housing and Urban-Rural Development and the Ministry of Land and Resources on Tightening the Management and Control over Intermediate Residential Properties and Land Supply (《住房城鄉建設部、國土資源部關於加強近期住房及用地供應管理和調控有關工作的通知》). To maintain a housing supply-demand balance, cities facing serious demand over supply and overheating market shall increase the supply of housing land, especially for ordinary commercial houses; and cities with excessive housing supply shall reduce or suspend the land supply for housing. All the local governments shall build inspection systems to monitor the source of funds for land acquisition to ensure that the real estate developers use their own legal funds to purchase lands.

On May 19, 2018, the Ministry of Housing and Urban-Rural Development issued the Notice of MOHURD on Further Improving the Management and Control over the Real Estate Market (《住房城鄉建設部關於進一步做好房地產市場調控工作有關問題的通知》), according to which, all regions shall take practical measures to achieve targets of stabilizing housing prices, controlling rents, reducing leverage, preventing risks, adjusting structure, and stabilizing expectations, support rigid housing demands, and resolutely curb property speculation. It is necessary to improve the supply mode of commercial houses land and establish a linkage mechanism for land price and house price so as to prevent land prices from pushing up house prices. In key cities, the proportion of residential land should be enhanced and it is suggested that residential land represent at least 25% of land set aside for urban development.

Although the various control measures are intended to promote more balanced property development in the long term, we cannot assure you that these measures will not adversely affect the development and sales of our properties. There is no assurance that the PRC government will relax

existing restrictive measures, impose and enhance restrictive measures, or 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. 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.

We are heavily dependent on the performance of the property market in China, which is at a relatively early stage of development

The property development industry and the ownership of private property in the PRC are still in a relatively early stage of development. Although demand for private property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, all of which are beyond our control, may affect market development. 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 private property may discourage the acquisition of new properties as resale is not only difficult, but can also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights may inhibit demand for property developments, property operation services and property agency services.

Increase in resettlement costs and the inability to reach resettlement agreements associated with certain property developments may materially and adversely affect our business, financial condition and results of operations

Land parcels acquired by property developers for future development may have existing building or other structures or be occupied by third parties. In accordance with the Building on State-owned Land Expropriation and Compensation Regulation (國有土地上房屋徵收與補償條例) and applicable local regulations, a property developer in the PRC is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development, directly or indirectly through the local government, and to provide compensation for their relocation and resettlement. The compensation payable by the property developer is calculated in accordance with a pre-set formula determined by the relevant provincial authorities, which may be subject to change. If such compensation formula is changed and the levels of compensation increased, land acquisition costs for property developers may be subject to substantial increases. In addition, if property developers or the local government fail to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay a project's timetable. Such delays may lead to an increase in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business, financial condition and results of operations may be materially and adversely affected.

Risks Relating the PRC

Changes in PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects

Substantially all of our business and operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to economic, political and social developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC

government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities. Further, 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.

The global economic slowdown and turmoil in the global financial markets could have a negative impact on the world economy. In the United Kingdom, a remain-or-leave referendum on its membership within the European Union was held in June 2016, 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 us 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 our ability to make payments on the Notes.

China's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions caused by the U.S.-China trade war. In 2018 and 2019, the U.S. government, under the administration of 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 U.S. 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 U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a comprehensive resolution of the trade war. 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. Subsequent to the entering of Phase I Agreement, the PRC government and the U.S. government adopted specific measures to exclude imports from the other country from additional tariffs.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

Our business and operations are primarily conducted in China and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. NDRC and the Ministry of Finance issued the Circular on Improving Market Regulatory Regime and Taking Strict Precautions Against Foreign Debt Risks and Local Debt Risks (國家發展改革委、財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) effective on May 11, 2018 (the “Joint Circular”) and on June 27, 2018, the NDRC issued a press release (the “Press Release”) regarding responses from NDRC officials to an interview with respect to the Joint Circular. According to the Joint Circular and the relevant Press Release, the NDRC may further improve and strengthen the regulations on offshore debts. On July 9, 2019, the NDRC issued the Notice on Requirements on Applications for Registration of Foreign Debt Issued by Property Companies (國家發展改革委辦公廳關於對房地產企業發行外債申請備案登記有關要求的通知)(“Notice No. 778”), pursuant to which property companies can only issue foreign debts for exchange of medium and long-term foreign debts due within one year with respect to application for NDRC registration of foreign debt to be issued. It is unclear how the Joint Circular, the Press Release and Notice No. 778 will be implemented and if any detailed rules or regulations will be promulgated to achieve the goals mentioned in the Joint Circular, the Press Release and Notice No. 778. There is no assurance that offshore debts issued by property companies will not be further restricted and the PRC government may impose additional requirements or conditions for offshore debts. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

The PRC government may adopt further measures to regulate financings for the real estate industry

In August 2020, the MOHURD and the PBOC announced that they are considering new rules on capital monitoring and financing for key real estate enterprises, which would impose certain requirements on the asset-liability ratio (excluding proceeds from advance sales), net debt ratio and cash short-term debt ratio of real estate enterprises. It is unclear when and how such rules will be implemented.

On December 28, 2020, PBOC and CBIRC jointly promulgated the Notice on Establishing a Centralization Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》) effective on January 1, 2021, 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 2.0% 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 is 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. 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.

Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively

Substantially all of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. 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. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment.

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and is denominated in Renminbi. The exchange rates between the Renminbi and foreign currencies are affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 33.0% from July 21, 2005 to December 31, 2014. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing

market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. 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. In addition, there remains significant international pressure on the PRC government to adopt a more flexible currency policy.

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 or other foreign currencies, in which case our financial condition and results of operations could be adversely affected because of our substantial foreign-currency-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. Following the offering of the Notes, we may enter into additional foreign exchange or interest rate hedging agreements with respect to 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 the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. We and our 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 governing the Notes. If we were unable to provide such collateral, it could constitute a default under such agreements.

Changes in foreign exchange regulations may adversely affect our ability to transfer funds and subsequently impact the results of our operations

We currently receive most of our revenues from operations in the PRC and such revenues are denominated in Renminbi. The PRC government regulates the conversion between Renminbi and foreign currencies. Over the years, the PRC government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions and payment of dividends. However, foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. There can be no assurance that these PRC laws and regulations on foreign investment will not cast uncertainties on our financing and operating plans in China. Under current foreign exchange regulations in China, subject to the relevant registration at SAFE, we will be able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to our shareholders in foreign currencies.

In addition, on August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or the Circular 142, a notice with respect to the administration of Renminbi converted from foreign exchange capital contributions of a foreign invested enterprise. As a

result, unless otherwise permitted by PRC laws or regulations, such converted amount can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition.

On March 30, 2015, SAFE issued the Circular on Reforming the Administration Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises 《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》, or Circular 19, which became effective on June 1, 2015 and replaced Circular 142 and was amended on December 20, 2019. On June 9, 2016, SAFE issued 《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》(Notice of the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account) or “Notice 16”. Circular 19 and Notice 16 provide that, the conversion of the Renminbi capital from foreign currency registered capital of foreign-invested enterprises may be at foreign-invested enterprises’ discretion, which means that the foreign currency registered capital of foreign-invested enterprises for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry of monetary contribution has been registered) can be settled at the banks based on the actual operational needs of the enterprises. However, Circular 19 and Notice 16 maintain the restriction that Renminbi converted from foreign exchange capital contributions of foreign invested enterprises can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition. Furthermore, on October 23, 2019, SAFE issued 《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》(Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment or “Notice 28”). Notice 28 provides that, investment-oriented foreign-invested enterprises may make equity investment with their capital funds in China in accordance with the laws and regulations; non-investment foreign-invested enterprises are allowed to make domestic equity investment with their capital funds in accordance with the law provided that the existing special administrative measures (negative list) for foreign investment access are not violated and the projects invested thereby in PRC are true and in compliance.

PRC regulations relating to acquisition of PRC companies by offshore holding companies may limit our ability to acquire PRC companies and may materially and adversely affect the implementation of our acquisition strategies as well as our business and prospects

The 《關於外國投資者併購境內企業的規定》(the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors) which was issued by six PRC ministries and commissions, as effective on 8 September 2006 and revised on 22 June 2009 (the “M&A Provisions”) were jointly implemented by six agencies, including the Ministry of Commerce of the PRC (中華人民共和國商務部)(“MOFCOM”), the China Securities Regulatory Commission (中國證券監督管理委員會)(“CSRC”) and SAFE. Pursuant to the M&A Provisions, a foreign company lawfully established or controlled by a PRC domestic company, enterprise or natural person shall obtain approval of MOFCOM prior to any acquisition of domestic enterprises related to such domestic company, enterprise or natural person. The M&A Provisions apply should foreign investors seek to: (i) purchase the equities or subscribe to the increased capital of a domestic non-foreign-invested enterprise and thus changing the domestic non-foreign-invested enterprise into a foreign-invested enterprise; or (ii) set up a foreign-invested enterprise to acquire assets from a domestic enterprise and operate these assets, or acquire assets from a domestic enterprise and set up a foreign-invested enterprise by injecting the acquired assets. The M&A Provisions stipulate that the business scope upon acquisition of a domestic enterprise must conform to the Special Management Measures for Foreign Investment Access (Negative List) (2020 version)(《外商投資准入特別管理措施(負面清單)(2020年版)》), or the Negative List, which came into effect on July 23, 2020. The Negative List expands the scope of permitted industries by foreign investment by reducing the number of industries that fall within the Negative List where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists. According to the Negative List, real estate development is a permitted industry for foreign investment access.

Should we decide to acquire a PRC enterprise, we cannot assure you that we or the owners of such PRC enterprise can successfully fulfil all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement our acquisition plans and may have a material adverse effect on our business, results of operations and financial condition results.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則) issued on January 5, 2007 by SAFE and amended on May 29, 2016 (the "Individual Foreign Exchange Rules"), and relevant notice issued by SAFE in February 2012, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval of SAFE and complete certain other procedures related to the share options or other share incentive scheme. However, no requirements or administrative rules have been issued by SAFE in connection with the registration process for employees of overseas non-listed companies that participate in employee stock holding plans or stock option plans. In addition, foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or exchanged into Renminbi. Our PRC citizen employees who may be granted share options or restricted share units in the future, or our future PRC option holders, will be subject to the Individual Foreign Exchange Rules. If we or our future PRC option holders fail to comply with these regulations, we or our future PRC option holders may be subject to fines and legal or administrative sanctions.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us, our directors and our senior management

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our directors and senior management reside within China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of the judgment of courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult.

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

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

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

closures of workplaces, which may have a material adverse effect on the global economy. Any material change in the financial markets, the PRC economy or regional economies as a result of these events or developments may materially and adversely affect our business, financial condition and results of operations.

Risks Relating to the Notes

Certain initial investors may own a significant portion of the Notes to be issued and may therefore be able to exercise certain rights and powers on behalf of all holders of the Notes. Additionally, this may reduce the liquidity of the Notes in the secondary trading market

Certain initial investors may purchase and own a significant portion of the Notes being offered under this offering memorandum.

Any holder that holds a significant portion of the Notes, even if less than a majority, will be able to exercise certain rights and powers and will have significant influence on matters voted on by holders of the Notes. For example, holders of at least 25% in aggregate principal amount of the Notes may declare all of the Notes to be immediately due and payable if certain types of Events of Default have occurred and are continuing.

The existence of any such significant holder may reduce the liquidity of the Notes in the secondary trading market. Additionally, interests of such holders, which may include our affiliates, may be in conflict with the interest of other holders of the Notes. If such holder sells a material portion of the Notes in the secondary market, it may materially and adversely affect the trading price of the Notes. The negative effect of such sales on the prices of the Notes could be more pronounced if secondary trading in the Notes is limited or illiquid.

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 substantially all of our operations through our PRC subsidiaries. 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. The Notes will not be guaranteed by any current or future PRC subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may 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 JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of 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 their obligations under guarantees they have issued or will issue in connection with our business operations, 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 December 31, 2020, our Non-Guarantor Subsidiaries had total debt in the amount of RMB2,994.0 million (US\$458.9 million). The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of

any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to a third party of equity interest of no less than 20% in such subsidiary (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, or JV Subsidiary Guarantor, multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared 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, including indebtedness that will mature within one year, and we 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 on a timely manner

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2020, our total borrowings amounted to RMB12,632.6 million (US\$1,936.0 million). Subsequent to December 31, 2020, we also issued the January 2021 Notes. As of December 31, 2020, we had PRC loans amounting to RMB450.8 million (US\$69.1 million) due within one year. See “Description of Material Indebtedness and Other Obligations” for more details. As a result, we are subject to refinancing risks against such maturing indebtedness. We cannot assure you that we would be able to refinance our indebtedness, including those due in 2021, in a timely manner on acceptable terms or at all. The risk is exacerbated by the current volatility in the global capital and credit markets.

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

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared 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. Under the Indenture and the indentures governing the Existing Notes (as defined in the “Description of the Notes”), our ability to incur additional debt is subject to limitations on indebtedness and preferred stock covenants. Under such covenants, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio.

The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated Net Income (which is a significant component of Consolidated EBITDA) for the Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenants could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of consolidated net income. In addition, because our definition of Consolidated Interest Expense for the Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense is actually paid by us) and any distributions incurred, accrued or payment on any Perpetual Securities Obligation, our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest expense. If we or our subsidiaries incur additional debt, 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, there is no assurance that we will be able to generate sufficient cash flow for these purposes. In addition, certain of our PRC loans are guaranteed by certain related parties. If we are unable to service our indebtedness, or if our guarantors are unable to perform their guarantee obligations and we are unable to secure alternative guarantees, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

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

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. Pursuant to the loan agreements with certain PRC banks, several of our PRC subsidiaries are subject to certain dividend distribution limitations. See “Description of Material Indebtedness and Other Obligations – PRC Loan Agreements.” In 2017, such PRC subsidiaries with dividend restrictions from their bank financings contributed to less than 2% of our profit for the year. In 2018, such PRC subsidiaries contributed to approximately 26% of our profit for the period. In 2019,

such PRC subsidiaries contributed to approximately 27% of our profit for the period. The rise in percentage was primarily a result of a newly consolidated subsidiary, which contributed substantially to our profit for the period, bearing certain financings with conditional dividend restrictions. The subsidiary was profitable and able to make repayments during the relevant accounting period and was therefore not restricted from distributing dividends. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and 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 also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. 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, which specifically exempts or reduces such withholding tax. 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 directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. As a result of such restrictions, there could be limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, although we currently do not have any offshore shareholder loans to our PRC subsidiaries, we may resort to such offshore lending in the future, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholder loans paid by our subsidiaries therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

The eligibility for the reduced tax rates described above on payments from our PRC subsidiaries to our Hong Kong subsidiaries is subject to limitations, including that the Hong Kong recipient company must be treated as the beneficial owner of the income and the PRC tax authorities approve the reduced withholding rate. There is no assurance that such approval will be granted by the PRC tax authorities.

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

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

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event or a Delisting Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See the section entitled “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 sufficient available funds at the time of the occurrence of any Change of Control Triggering Event or Delisting Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of a Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, 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 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.

Interest payable by us to our foreign investors and gain on the sale of our Notes may be subject to withholding taxes under PRC tax laws

We may be treated as a PRC resident enterprise for PRC tax purposes. See “– Risks Relating to Our Business – We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.” If we are deemed a PRC resident enterprise, the interest payable on the Notes may be considered to be sourced within China. In that case, PRC income tax at the rate of 10% will be withheld from interest paid by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. Furthermore, if we are considered a PRC resident enterprise and the relevant PRC tax authorities consider interest we pay with respect to the Notes, or any gains realized from the transfer of Notes, to be income derived from sources within the PRC, such interest or gains earned by nonresident individuals may be subject to PRC income tax (which in the case of interest, may be withheld by us) at a rate of 20%. It is uncertain whether we will be considered a PRC “resident enterprise.” In addition, pursuant to Circular 36 promulgated by the MOF and SAT on March 23, 2016, if the Company is treated as a PRC tax resident and if PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC, the holders of the Notes shall be subject to VAT at the rate of 6% when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12% of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72%.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the seller nor the buyer is located in the PRC, theoretically the Circular 36 does not apply and the Company does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

If we are required to withhold PRC tax on interest payable to our foreign noteholders that are “non-resident enterprises,” 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. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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”, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes – Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in specified tax law or certain other circumstances, including any change in interpretation or statement of the 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.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar

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

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

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

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

Our operations are restricted by the terms of the Notes, 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 includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;

- 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.

The terms of the Notes give us enhanced flexibility to pay dividends and repurchase our shares.

We pay dividends to our shareholders or repurchase our common stock from time to time. Under the Indenture, any such dividend payment or repurchase will be a "Restricted Payment," which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio. However, such restriction is subject to important exceptions and qualifications. Under the terms of the Notes, we may pay dividends on our common stock or redeem our common stock in an aggregate amount up to 30% of our profit for the year in the prior fiscal year without satisfying the Fixed Charge Coverage Ratio. See "Description of the Notes — Certain Covenants — Limitation on Restricted Payments." With such an exception, we may be able to pay substantial amount of dividends or repurchase a substantial amount of our common stock even when we are highly leveraged, which may materially and adversely affect our ability to service our indebtedness, including the Notes.

The terms of the Notes permit us to buy out minority interests in non-wholly owned Restricted Subsidiaries, and such purchases will not constitute Restricted Payments.

The Indenture permits us to redeem, repurchase or otherwise acquire minority interests in our Restricted Subsidiaries held by Independent Third Parties, and such purchases will not constitute Restricted Payments. See "Description of the Notes — Certain Covenants — Limitation on Restricted Payments." Even though such transactions would potentially increase our ownership interests in the relevant Restricted Subsidiary, we may have to pay substantial amounts of consideration in these transactions, whether in cash or other assets, which may adversely impact our business, results of operations and financial condition.

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 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 primarily engaged in permitted business up to an aggregate amount equal to 20% of our total assets, without satisfying the Fixed Charge Coverage Ratio requirement. See "Description of the Notes".

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 SEHK for the listing and quotation of the Notes on the SEHK, we cannot assure you that we will obtain a listing of the Notes on the SEHK or that the Notes will be listed on the business day immediately following the settlement date. Even if the Notes are listed, a liquid trading market may not develop. 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. In addition, the Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See the section entitled “Transfer Restrictions.” No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Notes. If an active trading market does not develop or is not continued, the market price and liquidity of the Notes could be adversely affected.

Our corporate ratings or the ratings on the Notes may be lowered or withdrawn in the future

The Notes are expected to be rated B3 by Moody’s Investors Service. Additionally, we have been assigned a long-term corporate credit rating of B2 with a positive outlook by Moody’s Investors Service, a long-term issuer credit rating of B with a stable outlook by Standard & Poor’s Ratings Services and a long-term foreign-currency issuer default rating of B with a positive outlook by Fitch Ratings Ltd. 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.

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 Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a Noteholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the Noteholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

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 Hong Kong Stock Exchange and we are required to comply with its 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 are subject to the independent shareholders’ requirement under the Listing Rules. 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 Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair their enforceability

Under bankruptcy laws, fraudulent transfer laws or insolvency laws in the BVI or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established or where insolvency proceeding may be commenced with respect to any such Subsidiary Guarantor or JV Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

For Subsidiary Guarantors incorporated in the BVI:

- (i) incurred the debt with the intent to defraud creditors (whenever the transaction took place, and irrespective of insolvency);
- (ii) 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;
- (iii) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor; or
- (iv) in the case of (ii) and (iii), a guarantee will be only be voidable if (1) it was entered into at a time when the guarantor was insolvent, or if it became insolvent as a consequence of doing so where insolvent in this context under BVI law means that the guarantor is unable to pay its debts as they fall due and the value of its liabilities exceeds its assets, and (2) the guarantee was given within the six month period preceding the commencement of liquidation, or, if the guarantee and beneficiary are connected entities, two years.

For Subsidiary Guarantors incorporated in other jurisdictions:

- (a) incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- (b) received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- (c) was insolvent or rendered insolvent by reason of such incurrence;
- (d) was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- (e) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

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

then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees. 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 a 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, and, as a result, such guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer or conveyancing laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

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

The pledge of certain Collateral may in some circumstances be voidable or there may be restrictions on the transferability of certain Collateral

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands or the BVI at any time within six months of the creation of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors or, where applicable, certain JV Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided under applicable insolvency or fraudulent transfer laws, and the memorandum and articles of association of the Subsidiary Guarantors may contain restrictions on the transferability of their shares which may affect the ability of a mortgagee to realize its security in such shares, which could impair their enforceability. If the pledges of the Collateral are voided for any reason, holders of the Notes will have only unsecured claims against us.

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

The Collateral will initially consist only of the share capital of the initial Subsidiary Guarantors and will be subject to certain limitations as described in “Description of the Notes – Security”. No appraisal of the value of the Collateral has been made in connection with this offering, and the fair market value of the Collateral is subject to fluctuations based on factors that include, among others, general economic conditions and similar factors. The amount to be received upon a sale of the Collateral would depend on various factors, including, but not limited to, the actual fair market value of the Collateral at such time, the timing and the manner of the sale and the availability of buyers. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the Collateral may not be sold in a timely or orderly manner, and the proceeds from any sale or liquidation of this Collateral may not be sufficient to pay our obligations under the Notes.

Because we share in the Collateral with the lenders under any *pari passu* secured debt (including any additional notes we may issue) to the extent permitted by the Indenture, there may not be sufficient Collateral to pay off any senior secured indebtedness we may incur in the future or any other *pari passu* debt (including any additional notes we may issue) together with the Notes offered hereby.

To the extent that pre-existing liens or liens permitted under the Indenture encumber any of the Collateral, those parties may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the Collateral Agent, the Trustee or the holders of the Notes to realize or foreclose on the Collateral.

In addition, because the Collateral will consist of pledges of share capital of certain of our subsidiaries, the validity of those pledges under local law and the ability of the holders of the Notes to realize upon that Collateral under local law, to the extent applicable, may be limited by such local law, which limitations may or may not affect the liens securing the Notes. Consequently, liquidating the Collateral will likely not result in proceeds in an amount sufficient to pay any amounts due under the Notes. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the Notes, the holders of the Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured, unsubordinated claim against the Company's and the Subsidiary Guarantors' remaining assets.

The pledge of certain Collateral may be released under certain circumstances

Under various circumstances, all or a portion of the Collateral may be released, including:

- to enable the sale, transfer or other disposal of such Collateral in a transaction not prohibited under the agreement governing any senior secured indebtedness we may incur in the future or the indenture, including the sale of any entity in its entirety that owns or holds such Collateral; and
- with respect to Collateral held by the Subsidiary Guarantor, upon the release of the Subsidiary Guarantor from its Subsidiary Guarantee.

In addition, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, may be released in connection with a sale of the Subsidiary Guarantor or the JV Subsidiary Guarantor, as the case may be, in a transaction not prohibited by the Indenture. The Indenture also allows us to designate Subsidiary Guarantors and JV Subsidiary Guarantors, as the case may be, as unrestricted subsidiaries. If we designate a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an unrestricted subsidiary, all of the liens on any Collateral owned by such subsidiary or any of its subsidiaries and any guarantees of the Notes by such subsidiary or any of its subsidiaries will be released under the Indenture. Designation of an unrestricted subsidiary will reduce the aggregate value of the Collateral securing the Notes to the extent that liens on the assets of the unrestricted subsidiary and its subsidiaries are released. In addition, the creditors of the unrestricted subsidiary and its subsidiaries will have a senior claim on the assets of such unrestricted subsidiary and its subsidiaries. See "Description of the Notes".

The Intercreditor Agreement may impact the ability of the Company and the Subsidiary Guarantors to pay amounts due under the Notes and the Subsidiary Guarantees and the Intercreditor Agreement may limit the rights of holders of the Notes to the Collateral

The Collateral Agent is required to take action to enforce the Collateral in accordance with the instructions of the holders of the Notes, the holders of the Existing Notes and holders (or representatives or agents) of other Permitted *Pari Passu* Secured Indebtedness, given under and in accordance with the Intercreditor Agreement. Any enforcement action taken by the Collateral Agent will adversely affect the Company's entitlement to receive distributions 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, the Subsidiary Guarantors' ability to pay under the Subsidiary Guarantees will be adversely affected. The

ability of holders of the Notes to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Collateral Agent 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 and holders, creditors or representatives of the Existing Notes and other Permitted Pari Passu Secured Indebtedness may decide whether to take any enforcement action and may thereafter, through their respective trustee, representative or agent, in accordance with the Intercreditor Agreement, instruct the Collateral Agent to take enforcement action against the Collateral. By virtue of the instructions given to the Collateral Agent described above, actions may be taken in respect of the Collateral that may be adverse to holders of the Notes. In such event, the only remedy available to holders of the Notes would be to sue for payment under the Notes and the Subsidiary Guarantees.

The Collateral Agent, 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 set forth in the Intercreditor Agreement. Under certain circumstances, the Collateral Agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the holders of the Notes. The Collateral Agent 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 or the Existing Notes unless such holders have offered to the Collateral Agent indemnity and/or security and/or pre-funding satisfactory to the Collateral Agent against any loss, liability or expense.

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, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

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, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

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

For so long as the Notes are listed on the SEHK, we will be subject to continuing listing obligations in respect of the Notes. The disclosure standards imposed by the SEHK may be different from those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

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

The Notes will initially only be issued in global certificate form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book entry form only, and notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Notes. The nominee of the common depository for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depository for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Noteholder under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Noteholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

USE OF PROCEEDS

We intend to use the net proceeds to refinance our existing indebtedness.

EXCHANGE RATE INFORMATION

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including but not limited to making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon Buying Rate | | | |
|--------------------|------------------|------------------------|--------|--------|
| | Period end | Average ⁽¹⁾ | High | Low |
| | | (RMB per US\$1.00) | | |
| 2015 | 6.4778 | 6.2869 | 6.4896 | 6.1870 |
| 2016 | 6.9430 | 6.6549 | 6.9580 | 6.9430 |
| 2017 | 6.5063 | 6.7530 | 6.9575 | 6.4773 |
| 2018 | 6.8755 | 6.6292 | 6.9737 | 6.2649 |
| 2019 | 6.9618 | 6.9014 | 7.1786 | 6.6822 |
| 2020 | | | | |
| 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 | 6.5518 | 6.5109 | 6.5716 | 6.4932 |
| April | 6.4749 | 6.5186 | 6.5649 | 6.4710 |

Source: Federal Reserve H.10 Statistical Release

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (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 Hong Kong 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. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong 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 Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we can not assure you that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon buying rate | | | |
|--------------------|------------------|------------------------|--------|--------|
| | Period end | Average ⁽¹⁾ | High | Low |
| | | (HK per US\$1.00) | | |
| 2015 | 7.7507 | 7.7519 | 7.7686 | 7.7495 |
| 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 | | | | |
| 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 | 7.7746 | 7.7651 | 7.7746 | 7.7562 |
| April | 7.7664 | 7.7691 | 7.7849 | 7.7596 |

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALIZATION AND INDEBTEDNESS

The following table sets out, on a consolidated basis, our capitalization and indebtedness as of December 31, 2020, on an actual basis and as adjusted to give effect to the issuance of the January 2021 Notes and the Notes before deducting the commission and other estimated expenses of this offering. Prospective investors should read this table with our financial information as of December 31, 2020 and the accompanying notes included in this offering memorandum.

| | As of December 31, 2020 | | | |
|--|-------------------------|---------------------|--------------------|---------------------|
| | Actual | | As adjusted | |
| | RMB | US\$ (unaudited) | RMB (unaudited) | US\$ (unaudited) |
| | (in millions) | | | |
| Cash and cash equivalents⁽¹⁾ | 10,941 | 1,677 | 13,838 | 2,097 |
| Short-term Borrowings⁽²⁾ | | | | |
| Borrowings – due within one year | 1,378 | 211 | 1,378 | 211 |
| Senior notes ⁽³⁾ ⁽⁴⁾ | 5,688 | 872 | 5,688 | 872 |
| Total current borrowings | 7,066 | 1,083 | 7,066 | 1,083 |
| Non-current borrowings | | | | |
| Borrowings – due after one year | 11,255 | 1,725 | 11,255 | 1,725 |
| Senior notes ⁽³⁾ | 3,065 | 470 | 3,065 | 470 |
| January 2021 Notes | – | – | 2,077 | 294 |
| Notes to be issued | – | – | 820 | 126 |
| Total non-current borrowings | 14,320 | 2,195 | 17,217 | 2,615 |
| Total equity | 17,458 | 2,676 | 17,458 | 2,676 |
| Total capitalization⁽⁵⁾ | 31,778 | 4,871 | 34,675 | 5,291 |

Notes:

- (1) Cash and cash equivalents exclude restricted/pledged bank deposits of RMB1,938.1 million (US\$297.0 million).
- (2) Subsequent to December 31, 2020, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property developments and for general corporate purposes. See “Description of Material Indebtedness and Other Obligations.” These additional borrowings are not reflected in the table above.
- (3) See note 28 to our consolidated financial information as of and for the year ended December 31, 2020 contained elsewhere in this offering memorandum.
- (4) Except disclosed above, the table has not reflected the impact of the repurchases in February and March 2021. On February 5, 2021, we repurchased the March 2022 Notes in an aggregate principal amount of US\$55,755,000. On March 11, 2021, we further repurchased the March 2022 Notes in an aggregate principal amount of US\$61,538,000 following the exercise of a put option pursuant to the terms of the March 2022 Notes.
- (5) Total capitalization includes total long-term borrowings plus total equity.

Except disclosed above, there has been no material change in our capitalization and indebtedness, on a consolidated basis, since December 31, 2020.

Subsequent to December 31, 2020, we have incurred additional indebtedness, including the issuance of the January 2021 Notes. See “Description of Material Indebtedness and Other Obligations.”

In our ordinary course of operations, including before and after the completion of this offering, we may incur additional debt, including Renminbi denominated borrowings or issue other debt securities. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since December 31, 2020.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table set forth our summary consolidated financial information and other data as of the dates and for the periods indicated.

Our consolidated financial statements for the year ended December 31, 2018 have been restated as the Company has applied merger accounting to the acquisitions, being business combinations involving entities under common control. In preparing the consolidated financial statements for the year ended December 31, 2019, the comparative amounts of the consolidated financial statement for the year ended December 31, 2018 has been restated to present as if Chuangyuan Group and Huiyuan Group had been combined as at January 1, 2018. It should be read in conjunction with the circulars issued by the Company for the acquisition of Chuangyuan Group and Huiyuan Group dated December 24, 2018 and June 25, 2019, respectively.

The summary of consolidated financial information as of and for the years ended December 31, 2019 and 2020 (except for the EBITDA data) is derived from our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 and included elsewhere in this offering memorandum. Unless otherwise specifically indicated, all references to financial information as of and for the year ended December 31, 2018 presented in this offering memorandum are to our financial information as restated for such period. The restated financial information for the year ended December 31, 2018 presented in this offering memorandum has not been reviewed or audited. Investors should be aware that, as a result of the restatement, the restated financial information contained in this offering memorandum may not be directly comparable to historical financial information as previously reported to the Hong Kong Stock Exchange in our annual reports.

As of January 1, 2018, the Group adopted HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”), which are effective for accounting periods beginning on or after January 1, 2018.

According to the HKFRS 9 and HKFRS 15 transitional arrangements, upon initial application of HKFRS 9 and HKFRS 15, the Group is not required to restate the comparative figures of the prior period. Instead, differences caused by the adoption of the HKFRS 9 and HKFRS 15 are adjusted in the beginning balance of retained earnings and other comprehensive income. Therefore, the Group’s 2018 consolidated financial statements is not comparable with the Group’s 2017 consolidated financial statements. For the impact on adoption of HKFRS 9 and HKFRS 15, please refer to note 2 to the Group’s 2018 annual report.

The Company has adopted HKFRS 16 “Leases” (“HKFRS 16”) retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognized in the opening balance sheet on January 1, 2019. For details, please refer to notes to our audited consolidated financial statement as of and for the year ended December 31, 2019 included elsewhere in this offering memorandum. As such, the audited consolidated financial information as of and for the year ended December 31, 2019 may not be directly comparable against the Company’s consolidated financial information as of and for the year ended December 31, 2018.

As such, investors should exercise caution when reviewing our consolidated financial statements as of and for the years ended December 31, 2018, 2019 and 2020.

Our consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum.

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

| | For the year ended December 31, | | | |
|---|---|------------------|------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands, except for percentages) | | | |
| Revenue | 13,616,003 | 16,070,171 | 18,363,185 | 2,814,281 |
| Cost of sales | (9,112,135) | (10,828,170) | (12,427,653) | (1,904,621) |
| Gross profit | 4,503,868 | 5,242,001 | 5,935,532 | 909,660 |
| Other income | 351,707 | 308,478 | 380,098 | 58,253 |
| Other gains and losses | (179,135) | (221,777) | 852,383 | 130,633 |
| Net impairment (losses)/reversal on financial assets . . | (94,764) | 19,942 | (27,974) | (4,287) |
| Fair value change on investment properties | 365,890 | 437,238 | (177,503) | (27,204) |
| Change in fair value upon transfer from inventories of properties to investment properties | 520,917 | – | – | – |
| Fair value change on financial assets at fair value through profit or loss | 12,930 | – | – | – |
| Selling and marketing costs | (358,984) | (303,407) | (297,942) | (45,662) |
| Administrative expenses | (420,010) | (492,296) | (422,990) | (64,826) |
| Other expenses | (2,266) | – | – | – |
| Finance costs | (293,400) | (282,698) | (317,641) | (48,681) |
| Share of results of investment accounted for using the equity method | 86,449 | 82,056 | 125,041 | 19,163 |
| Profit before taxation | 4,493,202 | 4,789,537 | 6,049,004 | 927,049 |
| Income tax expense | (2,141,018) | (2,329,054) | (2,517,811) | (385,871) |
| Profit for the year | 2,352,184 | 2,460,483 | 3,531,193 | 541,178 |
| Other comprehensive income (expense) | | | | |
| <i>Item that may be reclassified to profit or loss:</i> | | | | |
| Fair value gain on available-for-sale investment . . . | 2,681 | – | – | – |
| Exchange differences arising on translation of foreign operations | (6,087) | 2,511 | (1,821) | (279) |
| Total comprehensive income for the year | 2,348,778 | 2,462,994 | 3,529,372 | 540,899 |
| Other Financial Data | | | | |
| EBITDA ⁽²⁾ | 4,801,155 | 5,085,020 | 6,386,214 | 978,730 |
| EBITDA margin ⁽³⁾ | 35% | 32% | 35% | 35% |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

(2) EBITDA for any period consists of profit for the year adjusted by the finance costs, income tax expenses and depreciation. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for a reconciliation of our profit or loss for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes, in particular, EBITDA as presented herein does not exclude EBITDA of our Unrestricted Subsidiaries or EBITDA of our PRC subsidiaries, which cannot freely distribute dividends. Interest expense excludes amounts capitalized. See the sections entitled "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indentures governing the Notes.

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

Consolidated Statement of Financial Position

| | As of December 31, | | | |
|--|---|-------------------|-------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Non-Current Assets | | | | |
| Investment properties | 7,571,718 | 7,841,906 | 7,926,545 | 1,214,796 |
| Property and equipment | 133,765 | 132,880 | 123,671 | 18,953 |
| Intangible assets | 1,487 | 31,328 | 38,670 | 5,926 |
| Right-of-use assets | – | 10,694 | 9,624 | 1,475 |
| Investments accounted for using the equity method | 245,465 | 985,051 | 2,289,700 | 350,912 |
| Financial assets at fair value through profit or loss. | 80,871 | 668,204 | 961,039 | 147,286 |
| Deposits paid for acquisition | 1,935,423 | 1,167,684 | 1,150,157 | 176,269 |
| Deferred tax assets | 559,179 | 597,494 | 668,841 | 102,504 |
| Trade and other receivables | 3,909 | 124,934 | 38,450 | 5,893 |
| | <u>10,531,817</u> | <u>11,560,175</u> | <u>13,206,697</u> | <u>2,024,014</u> |
| Current Assets | | | | |
| Inventories of properties | 32,080,889 | 34,112,077 | 42,338,765 | 6,488,700 |
| Financial assets at fair value through profit or loss. | 707,499 | 168,775 | 131,880 | 20,211 |
| Trade and other receivables | 10,131,059 | 7,177,335 | 5,286,935 | 810,258 |
| Amounts due from non-controlling interests | – | – | – | – |
| Prepaid income tax | 513,848 | 563,705 | 383,901 | 58,835 |
| Amounts due from related parties | – | – | – | – |
| Restricted/pledged bank deposits | 2,103,123 | 2,123,101 | 1,938,081 | 297,024 |
| Cash and cash equivalents | 4,599,433 | 6,030,412 | 9,002,740 | 1,379,730 |
| | <u>60,667,668</u> | <u>61,735,580</u> | <u>72,288,999</u> | <u>11,078,772</u> |
| Current Liabilities | | | | |
| Trade and other payables | 6,162,953 | 6,395,483 | 7,283,549 | 1,116,250 |
| Pre-sale deposits received | 17,264,139 | 19,940,467 | 18,136,057 | 2,779,472 |
| Lease liabilities | – | 3,597 | 6,638 | 1,017 |
| Current income tax liabilities | 3,156,105 | 4,628,119 | 6,558,589 | 1,005,148 |
| Bank and other borrowings | 7,012,996 | 4,667,930 | 1,377,858 | 211,166 |
| Senior Notes | 4,477,446 | 314,084 | 5,687,872 | 871,705 |
| Derivative financial instrument | – | – | 190,913 | 29,259 |
| | <u>38,073,639</u> | <u>35,949,680</u> | <u>39,241,476</u> | <u>6,014,017</u> |
| Net Current Assets | <u>12,062,212</u> | <u>14,225,725</u> | <u>19,840,826</u> | <u>3,040,741</u> |
| Total Assets Less Current Liabilities | <u>22,594,029</u> | <u>25,785,900</u> | <u>33,047,523</u> | <u>5,064,755</u> |
| Capital and Reserves | | | | |
| Share capital | 21,083 | 33,870 | 34,876 | 5,345 |
| Reserves | 9,045,432 | 9,825,610 | 13,583,354 | 2,081,740 |
| Equity attributable to owners of the Company | 9,066,515 | 9,859,480 | 13,618,230 | 2,087,085 |
| Non-controlling interests | 1,470,165 | 1,977,678 | 3,839,498 | 588,429 |
| Total Equity | <u>10,536,680</u> | <u>11,837,158</u> | <u>17,457,728</u> | <u>2,675,514</u> |
| Non-Current Liabilities | | | | |
| Bank and other borrowings | 7,787,925 | 7,462,249 | 11,254,769 | 1,724,869 |
| Derivative financial instruments | – | 238,387 | – | – |
| Lease liabilities | – | 7,317 | 2,957 | 453 |
| Pre-sale deposits received | 647,722 | 500,510 | 540,412 | 82,822 |
| Deferred tax liabilities | 660,139 | 779,587 | 726,512 | 111,343 |
| Senior notes | 2,735,063 | 4,960,692 | 3,065,145 | 469,754 |
| Other payables | 226,500 | – | – | – |
| | <u>12,057,349</u> | <u>13,948,742</u> | <u>15,589,795</u> | <u>2,389,241</u> |
| | <u>22,594,029</u> | <u>25,785,900</u> | <u>33,047,523</u> | <u>5,064,755</u> |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

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

The following discussion should be read in conjunction with the section entitled "Summary Consolidated Financial Information" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated. Our consolidated financial statements were prepared in accordance with HKFRS. In this section of the Offering Memorandum, unless otherwise specified, references to, "2018", "2019" and "2020" refer to our financial years ended December 31, 2018, 2019 and 2020, respectively.

Overview

We are an established property developer in the PRC. Our main business operations include: (i) the development and sale of residential and commercial properties; (ii) the provision of development services; and (iii) property investment, which mainly consists of leasing commercial properties owned or developed by us.

As of December 31, 2020, we had a portfolio of 88 property development projects in various major cities or key towns in Jiangsu Province, comprising 42 residential complex projects, 45 integrated commercial complex projects and one commercial complex project.

For the years ended December 31, 2018, 2019 and 2020, our revenue was approximately RMB13,616.0 million (restated), RMB16,070.2 million and RMB18,363.2 million (US\$2,814.3 million), respectively, and our profit for the same years amounted to approximately RMB2,352.2 million (restated), RMB2,460.5 million and RMB3,531.2 million (US\$541.2 million), respectively.

Factors Affecting Our Results of Operations and Financial Condition

Our business, results of operations and financial condition have been, and we expect will continue to be, affected by a number of factors and risks, many of which are beyond our control. Please refer to the section entitled "Risk Factors" in this offering memorandum. The key factors and material risks include the following:

Economic Conditions and Regulatory Environment in the PRC

Our results of operations are subject to political, economic, fiscal, legal and social developments in the PRC in general and in cities and regions in which we operate, such as in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China, as well as economic, fiscal, legal and social developments specifically affecting the real estate sector in the PRC and in cities and regions in which we operate, including:

- continued growth in the economy, population and rate of urbanization in the PRC and in cities and regions in which we operate as such factors drive the demand for purchase or rental of real estate properties;
- the regulatory and fiscal environment of the PRC, specifically, the regulatory and fiscal environment affecting the property development industry, including tax policies, land grant and land use rights policies, pre-sale policies, policies on bank financing and interest rates and the availability of mortgage financing and other macro-economic policies; and
- the performance of the PRC's property market, in particular, the supply and demand for real estate properties and pricing trends in the medium- to high-end property sector in the cities and regions in which we operate.

The slowdown of the worldwide economy from 2008 to early 2009, including that of China, resulted in the decline in real estate market sentiment, which adversely affected property demand and average selling prices in many areas of China. In 2010, a financial crisis emerged in Europe, creating concerns about the ability of certain European nations to continue to service their sovereign debt obligations. On August 6, 2011, S&P downgraded the rating for long-term United States debt to “AA+” from “AAA” for the first time in 70 years and on December 1, 2014, Moody’s downgraded the debt rating of Japan to “A1” from “Aa3.” These events, including the uncertainties surrounding Brexit, coupled with ongoing political unrest in the Middle East, Eastern Europe and Africa have resulted in an environment of macroeconomic uncertainty. More recently, the risk of a trade war between China and the United States has emerged which, together with the impact of the COVID-19 pandemic, have contributed to additional macroeconomic uncertainty and adding further downward pressure and negative sentiment to the global economy, including that of China and the United States. It is difficult to determine the impact that any global economic slowdown, financial crisis or trade war may have on the property industry in China. If any global economic slowdown, financial market crisis or trade war eventuates, continues or worsens, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

Our business and results of operations have also been, and will continue to be, affected by the regulatory environment in China, PRC governmental policies and measures taken by the PRC government on property development and related industries. In recent years, the PRC government has implemented a series of measures with a view to controlling the growth of the economy, including the property markets. While the property industry is regarded as a pillar industry by the PRC government, the PRC government has taken various restrictive measures to discourage speculation in the property market and to increase the supply of affordable residential properties. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants, pre-sales of properties, bank financing and taxation. For example, the PRC government increased regulation over the property market since 2011. Policies restricting property purchases were adopted in nearly 50 cities, as compared to fewer than 20 cities in 2010. On January 26, 2011, the General Office of the State Council issued a circular which raised the proportion of minimum down payments for second house purchases from 50% to 60%. Regulations were promulgated at various levels to promote affordable housing. On February 26, 2013, the General Office of the State Council announced a new circular to further increase down payment ratios and interest rates for loans to purchase second properties for those cities with excessive growth in housing prices. On February 26, 2016, the PBOC and the CBRC issued a notice that provides the minimum down payment is 25% and the local policy can decrease 5% from that, and for a household that owns a residential property and has not paid off its existing mortgage loan, the minimum down payment will be 30%. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our access to capital and the means in which we may finance our property development. See “Regulation.”

Changes in the economic conditions and the regulatory environment in the PRC in general or in cities and regions in which we operate may affect the selling price of our properties as well as the time it will take us to pre-sell or sell the properties we have developed. For example, as a result of changes in the PRC’s economic environment, the growth of the PRC real estate market has slowed down recently with sales volumes or average selling prices decreasing in many major cities so far in 2015 as compared with the corresponding period in 2014. Lower selling prices, without a corresponding decrease in costs, will adversely affect our gross profit and reduce cash flow generated from the sale of our properties, which may increase our reliance on external financing and negatively impact our ability to finance the continuing growth of our business. A prolonged selling period will increase our selling and distribution costs as well as reduce the cash flow generated from the sale of our properties for a particular period. On the other hand, higher selling price and a shorter selling period may increase our gross profit, reduce our selling and distribution costs and increase our cash flow for a particular period to enable us to fund the continuing growth of our business.

Access to and cost of financing

Interest-bearing bank and other borrowings are important sources of funding for our property development projects. As of December 31, 2018, 2019 and 2020, our outstanding interest-bearing bank and other borrowings amounted to approximately RMB14,800.9 million (restated), RMB12,130.2 million and RMB12,632.6 million (US\$1,936.0 million), respectively. For the years ended December 31, 2018, 2019 and 2020, our total interest expenses on bank and other borrowings were approximately RMB1,395.1 million (restated), RMB1,243.2 million and RMB1,277.3 million (US\$195.8 million), respectively. Our bank borrowings generally have floating interest rates with reference to the benchmark interest rate set by PBOC and Hong Kong Inter-Bank Offered Rate (“HIBOR”), and any increase in these benchmark interest rates will increase the finance costs of our property development projects.

Moreover, the PRC Government from time to time has issued regulations on bank lending for property development. Any austerity measures implemented by the PRC Government (for example, to address over-heating in the real estate market or the general capital market or manifestation of risks associated with loan growth) that restrict lending activities or raise the lending rates will affect our access to, and increase our cost of, borrowing. As such, our business and results of operations may be significantly affected.

In addition, we obtain trust loans from trust companies and other loans from asset management companies. While trust companies and asset management companies generally do not link their interest rates to the PBOC benchmark lending rates, they typically charge higher interest rates than those charged by commercial banks. The PRC Government may implement more stringent measures to control trust financing, such as requiring trust companies and asset management companies to adopt stricter review procedures when considering applications for trust financing and stronger remedial actions to rectify any non-compliance with applicable laws and regulations. Any such further measures that the PRC Government may implement could limit the amount of financing that trust companies and asset management companies can provide to the PRC property development industry as a whole and to us.

Development and delivery schedule of our property development projects

Our results of operations, cash flows and financial position are significantly affected by the development and delivery schedule of our property development projects. The number of property development projects that a developer can undertake during any particular period may be limited due to substantial capital requirements for land acquisitions and construction costs as well as limited land supply. In addition to such restrictions, the development of a property project may take several months or even years before the commencement of pre-sales, depending on the size and complexity of the project. Accordingly, our results of operations in any particular financial year may not reflect an increase in our number of property development projects during the same period. Furthermore, the amount of GFA to be developed and delivered varies from project to project depending on our business strategy as well as factors which are beyond our control, such as market conditions. Our results of operations may be affected in the event that the amount of GFA to be developed and delivered in our future property development projects becomes relatively low. Furthermore, revenue from sales of our properties is recognized upon delivery of units to our customers while current liabilities are recognized when we receive proceeds from our customers for pre-sales of properties. In light of this and the considerable amount of cash involved in property purchases, the timing of each step of our development schedule and the timely completion and delivery of properties to our customers is critical to our cash flows, financial positions and results of operations. Any deviation in terms of the timing of our development schedule may have a significant and adverse effect upon our cash flows, financial position and results of operations.

Availability of land resources

Our business and results of operations as well as continuing growth will depend on our ability to secure high-quality land for development at costs that can yield reasonable returns. Even though we believe that we currently maintain sufficient land reserves to fulfil our development requirements for the next three years, we continue to look for suitable sites in various cities in the PRC for future development projects, on which our continuing growth will partially depend. We strategically target land parcels that satisfy our internal evaluation requirements, such as the geographical size of the city and district or county, population size, GDP and growth rate of the city, as well as the accessibility and transportation and infrastructural development of the site and city. Site selection under these criteria may restrict the availability of suitable target lands and may increase land acquisition costs. In addition, PRC Governmental land supply policies and implementation measures (such as the statutory requirement of public auctions and listing-for-sale for grants of state-owned land use rights) may further intensify competition for undeveloped land and increase land acquisition costs. For example, in November 2009, the PRC Government raised the minimum down payment percentage for land grant premium to 50.0% and required that land grant premium be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. These and any future policy changes may have a material adverse effect on our cash flows and our ability to acquire suitable land for our growth.

Land acquisition and construction and related costs

Land acquisition and construction and related costs constitute a substantial portion of our cost of sales and have had, and will continue to have, a significant impact on our business and results of operations. These costs primarily include costs for acquisition of the rights to occupy, use and develop land, costs for the design and construction of a property development project, and costs of construction materials. Land acquisition and construction and related costs vary according to the GFA and height of the buildings, the geology of the construction sites, as well as the use and price of certain key construction materials, such as steel and cement. Costs for construction materials and construction labour for property development projects are generally specified and included in the contractor fees agreed between us and our construction contractors. However, increases in construction and related costs will likely prompt our contractors to increase their fee quotes for new property development projects. Furthermore, as we typically pre-sell our properties before their completion, we may be unable to pass on any increases in costs to our customers if construction and related costs increase after the pre-sale. We expect our property development costs will continue to be influenced by fluctuations in the cost of construction materials and the rise in labour costs for our property developments.

Product mix

We derive a significant portion of our revenue from property development, which includes the sale of residential and commercial properties. We price our properties by taking into account various factors, including our land acquisition and construction costs, market conditions, property location and type and our competitors' pricing for nearby developments of similar scale and quality. The price of properties in different cities can also vary significantly. In addition, the price of different types of properties may also vary. The average selling price of our commercial properties in a particular property development project is generally higher than that for our residential properties in the same project. Accordingly, the type and location of the property form part of the factors that comprise our pricing policy, and therefore will have an impact on our results of operations and cash flows.

Revenue mix

We generate revenue primarily from three major business segments, namely property development, property investment and development services. For the years ended December 31, 2018, 2019 and 2020, revenue from property development accounted for 96.4% (restated), 95.7% and 95.5% of our total revenue, respectively. For the years ended on December 31, 2018, 2019 and 2020, revenue from property rental accounted for 0.6% (restated), 1.3% and 1.3% of our total revenue, respectively.

Revenue from property development tends to fluctuate from period to period due to variations in the amount of GFA delivered and the average selling prices of these properties, which as discussed earlier, are mainly affected by our business plan, our development schedule and the real estate market conditions. Average selling price is also affected by the type, size and timing of sale of the property sold and delivered, our marketing strategies and our target customers. Our development schedule is subject to our business strategy as well as factors which are beyond our control such as weather, approval processes and third party contractors' work schedules. We typically generate more revenue from property development during periods in which we deliver more GFA or in which we sell and deliver more properties at higher average selling prices. Accordingly, revenue from property development accounts for a larger percentage of our total revenue during these periods.

Accordingly, our business plan and strategy, our development schedule, weather, approval progress and third party contractors' work schedules, government planning and the general real estate market conditions may have an impact on our revenue mix. A change of revenue mix may cause fluctuations in our results of operations.

Despite any change of revenue mix or any impact such change may have on our results of operations, given our track record of success in property development over the past decade and our relatively large amount of land reserves for future development and for investment (as of December 31, 2020, we had land reserves of approximately 17.7 million sq.m. in terms of GFA), development and sales of properties and lease of properties will remain as the primary arms of our business focus.

Discontinued operations and their presentation in the Consolidated Financial Statements

We terminated certain business operations through our disposal of the relevant members of the Private Group as part of our corporate reorganization in preparation for the listing of our shares on the Hong Kong Stock Exchange. We accounted for this disposal as our discontinued operations under our consolidated income statement and consolidated statement of comprehensive income. These discontinued operations consisted of property development operations in cities where we do not intend to conduct business.

Results of discontinued operations were accounted for as a separate line item as "profit (loss) for the year/period from discontinued operations" in the consolidated income statement and consolidated statement of comprehensive income. Assets and liabilities of continuing and discontinued operations are presented in the consolidated statements of financial position on a consolidated basis, unless the discontinued operations met the criteria as a disposal group in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operation", of which the assets and the liabilities of the disposal group held for sale are presented separately from other assets and liabilities on the consolidated statements of financial position. Cash flows of continuing and discontinued operations were presented in the consolidated statements of cash flows on a consolidated basis.

Critical Accounting Policies and Estimates

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Note 3 to our consolidated financial statements included in this offering memorandum. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Revenue recognition

Property development

Income from property developed for sale is recognized: (i) when the construction of the relevant properties has been completed; (ii) when collectability of related receivables is reasonably assured; and (iii) at the date of delivery or certain days after the notice of completion are issued to the purchasers for which is earlier, at which time all the following conditions are satisfied:

- (a) our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to our Group; and
- (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from buyers prior to meeting the above criteria for revenue recognition are included in the consolidated statements of financial position under current liabilities.

Property investment

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Development services

When the outcome of construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion of costs incurred to date as compared to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statements of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statements of financial position under trade and other receivables.

Construction costs estimates for revenue recognition

We divide certain projects into several phases according to our development and delivery plans. Our Group recognizes sales upon delivery of the properties. Cost of sales, including construction costs specific to certain phases and common costs applicable to all phases, are calculated based on management's best estimates of the total development costs for the whole project and the allocation to each phase at the time when the properties are delivered.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including both completed properties and properties under construction). Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise. At the end of the reporting period, investment properties are stated at fair value based on the valuations performed by independent professional appraiser. The valuation method used by the appraisers to determine fair value involves certain estimates. When relying on the valuation report, our management exercises its judgment regarding whether the assumptions used in the valuation reflect current market conditions. The valuations of completed investment properties which are held by our Group for sale and for investment were arrived at with adoption of investment approach by considering the capitalized rental income derived from the existing tenancies with due provision for any reversionary income potential of the respective properties. The valuations of investment properties under construction were arrived at with adoption of cost approach, which is based on market observable transactions of completed properties with the basis that they will be developed and completed in accordance with the latest development proposals and taking into account the accrued construction costs that will be expended to complete the development to reflect the quality of the completed development and developer's gross profit margin.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

Property under construction or development for future use as an investment property is classified as investment property under development and is initially measured at cost and subsequently at fair values using the fair value model. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or development is completed, in which time any difference between the fair value and the carrying amount will be recognized in profit or loss in that period.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognized.

Properties under development

When the leasehold land and buildings are in the course of development for sale, the leasehold land component is amortized over a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of the costs of the properties under development.

Properties under development which are intended to be held for own use or their investment potential are shown as non-current assets.

Properties under development which are intended to be held for sale are shown as current assets and carried at the lower of cost and net realisable value.

Properties under development are transferred to investment property when the development is completed and there is a change of intention to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss.

Our management writes down the carrying amount of inventories of properties and construction in progress to net realisable value based on our assessment of the realisability of properties, taking into account current market prices for properties of comparable standards and locations. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease and this might result in write-downs of properties under development to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realisable. Determining write-downs requires estimation. Our expectations will impact the carrying value and write-downs of inventories of properties in the periods during which we change our estimates.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalized. Net realisable value is determined based on prevailing market conditions.

Properties held for sale are transferred to investment property when there is a change of intention to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss.

Property and equipment

Property and equipment including leasehold land and buildings held for administrative purpose are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses if any. Depreciation is recognized so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The rates of depreciation for this purpose are summarized as follows:

| | |
|--|---|
| Leasehold land and building | Over the shorter of the term of lease or 2% |
| Leasehold improvements. | 20% |
| Office equipment. | 20% |
| Motor vehicles | 25% |
| Furniture, fittings and equipment. | 10% to 20% |
| Computer equipment | 20% to 33% |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

When applying our accounting policy on property and equipment with respect to depreciation, our management estimates the useful lives of various categories of property and equipment according to industry experience and industry practice. If the actual useful lives of our property and equipment is shorter than our original estimate due to commercial and technological changes, the difference will impact the depreciation charge for the remaining period.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognized in other comprehensive income and accumulated in asset revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Costs including professional fees and other costs that are directly attributable to the construction or acquisition of the property are capitalized. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as financial assets at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that our Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as financial assets at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with our Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit paid for a life insurance policy, trade and other receivables, amounts due from related parties, restricted/pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than financial assets at fair value through profit or loss are assessed for indicators of impairment at the end of reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, other than financial assets at fair value through profit or loss, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for indicators of impairment on a collective basis.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. In determining the recoverability of trade receivables, our Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

For financial assets measured at amortized cost, if in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Contract revenue and costs

We recognize contract revenue according to our management's estimates of the project's progress and outcome. Estimated revenue is determined in accordance with the terms set out in the relevant contracts or, in case of variation orders, based on contract terms or other forms of agreements. Estimated contracts cost, which mainly include direct labour cost, subcontracting charges and costs of materials, is variable and our management estimates these costs based on quotations we receive from the major subcontractors, suppliers and vendors involved and our management's experience. Although our

management frequently reviews and revises our estimates as the contract progresses, the actual total revenue and costs from the contract may differ from the estimates and this will affect the revenue and profit recognized.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from “profit before taxation” as reported in our consolidated income statement and consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

When measuring deferred tax arising from investment properties that are measured by fair value, the carrying amounts of the properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held for the purpose of consuming substantially all of the economic benefits from the investment property over time, rather than through sale. Our Directors have reviewed our Group’s portfolio of investment properties and concluded that we hold our investment properties to consume substantially all of their economic benefits over time, rather than to realize their value through sales. Accordingly, when measuring our Group’s deferred taxation on investment properties, our Directors have determined that the presumption that the carrying amounts of investment properties measured by fair value are recovered entirely through sales is rebutted. As a result, our Group has recognized the deferred taxes on changes in fair value of investment properties as our Group is subject to EIT.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

LAT

According to the requirements of the Provisional Regulations of the PRC on LAT effective from January 1, 1994 and amended on January 8, 2012, and the Implementation Rules on the Provisional Regulations of the PRC on LAT effective from January 27, 1995, all gains arising from the sale or transfer of real estate in the PRC with effect from January 1, 1994 are subject to LAT at progressive

rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and expenses for the development of the land or for construction of new buildings and supporting facilities, or the assessed value for old buildings and structures, tax payable relating to transfer of the real estate and other deductible items prescribed by MOF. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities. Sales of newly constructed and unused residential or commercial properties by property developers are eligible for such additional deductions. Significant judgment is required in determining the amount of land appreciation and the related taxes. We recognize these liabilities based on our management's estimates according to its understanding of the tax rules. If the final tax outcome differs from the amounts that we initially recorded, the differences will impact our income tax provisions in the period during which the determination is made.

Description of Selected Components of Consolidated Income Statement and Consolidated Statement of Comprehensive Income

Revenue

During the years ended December 31, 2018, 2019 and 2020, our revenue comprised: (i) property development; and (ii) property management services, while we generated most of our revenue from property development. The following table sets out a breakdown of our revenue by segment for the years indicated:

| | For the year ended December 31, | | | | | | |
|---|--|--------------|-------------------|--------------|-------------------|------------------|--------------|
| | 2018 | | 2019 | | 2020 | | |
| | RMB | % | RMB | % | RMB | US\$ | % |
| | (unaudited) (restated) ¹ | | | | (unaudited) | | |
| | (In thousands, except for percentages) | | | | | | |
| Sale of properties | 13,127,092 | 96.4 | 15,373,501 | 95.7 | 17,529,537 | 2,686,519 | 95.5 |
| Property rental | 76,977 | 0.6 | 210,892 | 1.3 | 254,169 | 38,953 | 1.3 |
| Property management services . . | 318,246 | 2.3 | 485,778 | 3.0 | 579,479 | 88,809 | 3.2 |
| Sales and installation service of software and system equipment | 89,322 | 0.7 | – | – | – | – | – |
| Consulting service | 4,366 | 0.03 | – | – | – | – | – |
| Total | 13,616,003 | 100.0 | 16,070,171 | 100.0 | 18,363,185 | 2,814,281 | 100.0 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Property development

Our property development included the sale of residential and commercial properties. The following table sets out a breakdown of our revenue from property development, GFA sold and delivered and average selling price by property development project delivered for the years indicated:

| | For the year ended December 31, | | |
|---|--|-------------|-------------|
| | 2018 | 2019 | 2020 |
| | (unaudited) | | |
| | (restated) | | |
| Residential properties | | | |
| Total for residential properties | | | |
| Revenue (RMB'000) | 8,602,106 | 14,216,726 | 16,161,259 |
| GFA (sq.m.) | 1,017,091 | 1,595,000 | 1,803,296 |
| Average selling price (RMB/sq.m.) | 8,458 | 8,913 | 8,962 |
| Commercial properties (including office space) | | | |
| Total for commercial properties (including office space) | | | |
| Revenue (RMB'000) | 1,779,757 | 1,156,775 | 1,368,277 |
| GFA (sq.m.) | 174,441 | 70,634 | 120,432 |
| Average selling price (RMB/sq.m.) | 10,203 | 16,377 | 11,361 |

During the years ended December 31, 2018, 2019 and 2020, the changes in our revenue from property development were primarily attributable to changes in GFA sold and delivered and changes in our average selling price for our properties delivered. The changes in GFA sold and delivered were primarily due to our property development schedule. The changes in our average selling price for our properties sold and delivered were primarily due to the difference in the geographical location of our properties delivered.

Property rental

Our property rental mainly consisted of leasing commercial properties (including predominantly shopping arcades, retail shops, office properties and carparks). During the years ended December 31, 2018, 2019 and 2020, the increase in our revenue from property rental was mainly attributable to an increase in our leased GFA as we progressively completed the construction of more commercial properties, which resulted in the expansion of our investment property portfolio and the rapid growth of relevant business circles in Taizhou, Nanjing and Hefei.

Property Management

On December 9, 2020, Jiayuan Services Holdings Limited (“Jiayuan Services”) successfully listed on the Main Board of the Hong Kong Stock Exchange. Jiayuan Services and its subsidiaries are principally engaged in the provision of property management services, value-added services to property developers and community value-added services in the PRC.

On January 21, 2019, we completed the acquisition of the entire equity interest in Chuangyuan Holdings Limited (together with its subsidiaries, the “Chuangyuan Group”), which is engaged in the property management business in the PRC. Property management became a new operating segment of the Group for the year ended December 31, 2019.

Our revenue from property management primarily includes (i) post-delivery property management services such as security, repair and maintenance, cleaning and garden landscape maintenance provided to property owners, residents and tenants of residential communities and commercial properties; and (ii) pre-delivery property management services including on-site security, cleaning, greening and gardening as well as customer service and other ancillary services provided to property developers prior to the establishment of an owners’ committee.

Cost of sales

Our cost of property development consisted of costs we incurred directly in connection with our property development activities, which mainly included land acquisition costs, development costs and capitalized interest. We recognized the cost of sales of our properties for a given period to the extent that revenue from such properties was recognized in the same period.

Our land acquisition costs represented costs relating to the acquisition of the rights to occupy, use and develop land. These costs primarily included the land grant premiums incurred in connection with land grants from the PRC Government. Our land acquisition costs were affected by a number of factors, including the location, local real estate market conditions and the project lands' plot ratio.

Our development costs primarily included, with respect to any particular project, design costs, construction costs, renovation costs, electrical engineering costs and cost of construction materials. The design costs, construction costs, renovation costs and electrical engineering costs were primarily payments to third party contractors. These costs were affected by a number of factors, such as the type and geological location of the properties being constructed and the type and amount of construction materials used.

We capitalized a portion of our finance costs to the extent that they were directly attributable to the acquisition and construction of a particular property development project. Finance costs that were not directly attributable to the development of a property development project were expensed and recorded as finance costs in our profit or loss in the period in which they were incurred.

Gross profit and gross profit margin

Our gross profit is calculated by deducting our cost of sales from our revenue. The table below sets out our gross profit and gross profit margin by segment for the years indicated:

| | For the year ended December 31, | | | | | |
|--------------------------------|--|--------------|------------------|--------------|------------------|-------------|
| | 2018 | | 2019 | | 2020 | |
| | (unaudited) (restated) ¹ | | | | | |
| | Gross profit | Gross profit | Gross profit | Gross profit | Gross profit | |
| | margin | margin | margin | margin | margin | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Property development | 4,314,805 | 31.1 | 4,892,607 | 31.8 | 5,525,648 | 31.5 |
| Others | 189,063 | 37.8 | 349,394 | 50.2 | 409,884 | 49.2 |
| Total | 4,503,868 | 31.6 | 5,242,001 | 33.0 | 5,935,532 | 32.3 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

During the years ended December 31, 2018, 2019 and 2020, our overall gross profit was approximately RMB4,503.9 million (restated), RMB5,242.0 million and RMB5,935.5 million (US\$909.7 million), respectively, while our overall gross profit margin was approximately 31.6% (restated), 33.0% and 32.3% for the same years, respectively. Our overall gross profit margin was primarily affected by: (i) our revenue mix; and (ii) our gross profit margin for property development, which depended on our average selling price of the properties sold and delivered and our unit cost of property development. Gross profit margin for development services was low as our Group was providing such development services to government organizations for the development of resettlement properties and development or refurbishment of other types of properties, facilities or infrastructure. Our Group generally did not incur any cost of sales for our property investment business.

Other income

During the years ended December 31, 2018, 2019 and 2020, our other income comprised interest income on bank deposits and others which mainly included waste treatment fees and fees charged for the change of owners' names.

The following table sets out a breakdown of our other income for the years indicated:

| | For the year ended December 31, | | | |
|---|---|----------------|----------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousand) | | | |
| Interest income on bank deposits | 72,196 | 79,860 | 125,011 | 19,159 |
| Interest income on financial assets at fair value through profit or loss | 63,791 | 80,572 | 107,670 | 16,501 |
| Interest income on loans receivable | 190,491 | 132,597 | 109,287 | 16,749 |
| Government grant | 1,944 | 592 | 4,371 | 670 |
| Compensation income | – | – | 17,786 | 2,726 |
| Others | 23,285 | 14,857 | 15,973 | 2,448 |
| Total | 351,707 | 308,478 | 380,098 | 58,253 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Other gains and losses

The significant change of other gains and losses was mainly attributable to foreign exchange loss of approximately RMB61.1 million in 2019 from foreign exchange gain of approximately RMB167.0 million (restated) in 2018. We recorded other gains of RMB852.4 million (US\$130.6 million) in 2020. The following table sets out a breakdown of our other gains and losses for the years indicated:

| | For the year ended December 31, | | | |
|---|---|------------------|----------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousand) | | | |
| Fair value change on financial assets at fair value through profit or loss | – | (80,378) | 3,694 | 566 |
| Gains on disposal of investments accounted for using the equity method | – | 21,712 | 7,674 | 1,176 |
| Fair value change on derivative financial instruments | – | (55,357) | 54,053 | 8,284 |
| Gains/(losses) on disposal of property and equipment | 115 | (5) | – | – |
| Impairment allowance | (90,497) | – | – | – |
| Gains/(losses) on disposals of financial assets at fair value through profit or loss | – | (15,232) | 756 | 116 |
| Losses on deemed disposal of a subsidiary | – | (39,709) | – | – |
| Foreign exchange gains/(losses), net | (167,016) | (61,144) | 697,355 | 106,874 |
| Gains arising from bargain purchase | – | – | 67,453 | 10,338 |
| Fair value gain upon transfer of inventories of properties to investment properties | – | – | 21,152 | 3,242 |
| Others | (12,234) | 8,336 | 246 | 38 |
| Total | (179,135) | (221,777) | 852,383 | 130,633 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Our (loss) gain on disposal of property and equipment mainly represented gain or loss arising from sales of our motor vehicles and office equipment.

Our change in fair value of investments designated at fair value through profit or loss mainly represented realized fair value gain arising from the sale of our financial assets at fair value through profit or loss. Please see “– Certain items of consolidated statements of financial position – Financial assets at fair value through profit or loss” for details of our financial assets at fair value through profit or loss.

Our foreign exchange gain (loss) during the years ended December 31, 2018, 2019 and 2020 mainly resulted from our HK dollar-denominated bank borrowings and HK dollar-denominated bank balances and cash. We recorded foreign exchange gains on our HK dollar-denominated bank borrowings when the Renminbi appreciated against HK dollars and on our HK dollar-denominated bank balances and cash when the Renminbi depreciated against HK dollars, and incurred foreign exchange losses on our HK dollar-denominated bank borrowings when the Renminbi depreciated against HK dollars and on HK dollar-denominated bank balances and cash when the Renminbi appreciated against HK dollars. Our foreign exchange gain(loss) during the years ended December 31, 2018, 2019 and 2020 mainly result from respective redemptions of U.S. dollar-denominated senior notes.

Change in fair value of investment properties

During the years ended December 31, 2018, 2019 and 2020, our change in fair value of investment properties was approximately RMB365.9 million (restated), RMB437.2 million and RMB177.5 million (US\$27.2 million), respectively.

Our investment properties are properties held to earn rental income or for capital appreciation and are measured at fair value. The fair value of each of our investment properties primarily depended on the demand and supply for comparable properties, which were dictated by real estate market conditions as driven by the economic growth, demographic changes and government policies in the locations where the investment properties were located.

Our change in fair value of investment properties represented fair value gains realized from the investment properties revalued during the respective period. The fair value gains attributable to revaluation of investment properties for the year ended December 31, 2019 was a result of revaluation of investment properties in Nanjing, Yangzhou and inclusion of new investment properties under construction in Anhui.

Change in fair value upon transfer from inventories of properties to investment properties

During the years ended December 31, 2018, 2019 and 2020, we reclassified certain completed properties we developed that had not been contracted for sales as investment properties for leasing. We transferred inventories of properties to investment properties when our management believed that it was more beneficial and profitable to lease certain properties than to sell them after considering factors such as: (i) the prevailing and expected economic conditions; (ii) the supply and demand of similar properties; (iii) the expected returns from sales and leasing; (iv) whether we had the necessary resources, including financing or capital resources, to manage those properties as investment properties; and (v) the property’s expected capital appreciation in the long run based on its location.

We accounted for the transfer of our inventories of properties to investment properties in accordance with paragraph 57(d) of HKAS 40 *Investment Property* when we entered into lease agreements evidencing a change in use of the properties. The difference between the fair value of the relevant property as of that date and its previous carrying amount was recognized as profit or loss. As a result, the change in fair value upon transfer from inventories of properties to investment properties represented the difference between the fair value of these properties as of the date of transfer and their previous carrying amounts. The property development projects under which certain completed properties were reclassified for leasing were mainly under Oriental Bright City (東方不夜城) in 2012, Jiayuan Centurial Scenery Park (世紀景園) in 2013, Jiayuan New World (新天地), Jiayuan Centurial Garden (世紀花園) in 2014, Oriental Bright City (東方不夜城) and Jiayuan New World (新天地) in 2015,

Qiangxi Garden (羌溪花苑) in 2016 and Zijin Mansion (紫金華府), Jiayuan Dream Square (佳源夢想廣場), Fengcheng Mingdu (奉城名都) and Huijing Huating (滙景華庭) in 2018, Hefei Paris Metropolis (合肥巴黎都市) in Anhui and Jiayuan Yurun Guifu (佳源雨潤桂府) in Yangzhou in 2019.

The following table sets out a sensitivity analysis of hypothetical fluctuations in gains on fair value of investment properties and upon transfer from inventories of properties to investment properties, with other assumptions held constant, and its effect on our Group's profit for the years indicated:

| | For the year ended December 31, | | | | | |
|--|--|-----------|----------|----------|----------|----------|
| | 2018 | | 2019 | | 2020 | |
| | (unaudited) (restated) ¹ | | | | | |
| Increase in gain on fair value | 10% | 20% | 10% | 20% | 10% | 20% |
| Impact on profit for the year | | | | | | |
| (RMB'000) | 88,681 | 177,361 | 32,793 | 65,586 | 15,635 | 31,270 |
| Decrease in gain on fair value. | 10% | 20% | 10% | 20% | 10% | 20% |
| Impact on profit for the year | | | | | | |
| (RMB'000) | (88,681) | (177,361) | (32,793) | (65,586) | (15,635) | (31,270) |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Distribution and selling expenses

During the years ended December 31, 2018, 2019 and 2020, our distribution and selling expenses mainly included salaries of our sales personnel, sales commission payable to the sales agents and advertising and promotion expenses (including advertisements in print media, on billboards, on television and on internet platforms). Our distribution and selling expenses in any period may be affected by the number of newly introduced property development projects in that period.

Administrative expenses

During the years ended December 31, 2018, 2019 and 2020, our administrative expenses mainly consisted of: (i) staff costs in relation to salaries, allowances and social security contribution of our administrative personnel; (ii) other tax charges (such as stamp duties payable by our Group for our property sales); and (iii) entertainment and travelling expenses mainly in relation to meal and travelling expenses incurred for our business meetings.

Other expenses

During the years ended December 31, 2018, 2019 and 2020, our other expenses mainly represented: (i) compensation paid to purchasers of our properties for delays in property delivery; and (ii) penalties and surcharges mainly paid to the PRC Government for late payments of taxes and tax non-compliance.

Finance Costs

During the years ended December 31, 2018, 2019 and 2020, our finance costs primarily represented interest expenses on HK dollar-denominated bank borrowings borrowed by our Group that were not intended specifically for property development purposes. Our finance costs were calculated by deducting capitalized interest in investment properties or properties under development (which were included in our cost of property development as part of our cost of sales) from total interest expenses from bank and other borrowings. The following table sets out a breakdown of our finance costs for the years indicated:

| | For the year ended December 31, | | | |
|--|---|----------------|----------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Interest on bank and other borrowings | 1,395,105 | 1,243,160 | 1,277,268 | 195,750 |
| Interest on senior notes | 777,336 | 621,541 | 1,222,730 | 187,392 |
| Interest on lease liabilities | – | 550 | 806 | 124 |
| Loss on exchange of senior notes | – | 22,146 | – | – |
| Less: amounts capitalised on qualifying assets | (1,879,041) | (1,604,699) | (2,183,163) | (334,584) |
| Total | 293,400 | 282,698 | 317,641 | 48,682 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Income tax expense

Our income tax expense represented the sum of the tax currently payable and deferred tax. The following table sets out a breakdown of our income tax expenses for the years indicated:

| | For the year ended December 31, | | | |
|--|---|------------------|------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Current | | | | |
| Enterprise income tax in the PRC | 1,063,579 | 1,131,003 | 1,744,597 | 267,371 |
| LAT | 1,030,723 | 1,130,859 | 1,058,612 | 162,239 |
| | 2,094,302 | 2,261,862 | 2,803,209 | 429,610 |
| Deferred tax | 46,716 | 67,192 | (285,398) | (43,739) |
| Total | 2,141,018 | 2,329,054 | 2,517,811 | 385,871 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Taxable profit differs from profit before taxation in our consolidated income statement and consolidated statement of comprehensive income because it excludes items of income or expense that are temporarily not taxable or not tax deductible in that particular year and it further excludes items that are never taxable or tax deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The changes of our income tax expense during the years ended December 31, 2018, 2019 and 2020 were generally in line with the changes in our profit before taxation over the same period.

Our effective income tax rate, which is calculated by dividing the sum of current enterprise income tax, deferred tax and LAT by profit before taxation from continuing operations, was approximately 47.7% (restated), 48.6% and 41.6% for the years ended December 31, 2018, 2019 and 2020, respectively.

Fluctuations in our effective tax rate from period to period were primarily due to changes in our LAT provision, expenses not deductible for tax purpose and tax losses not recognized.

Corporate income tax

Under the PRC Enterprise Income Tax Law and its implementation regulation, the tax rate applicable to our PRC subsidiaries is 25% from January 1, 2008 onwards.

No provision for taxation was made for companies incorporated in the Cayman Islands and the BVI as they were not subject to any tax during the years ended December 31, 2018, 2019 and 2020.

Hong Kong Profits Tax was calculated at 16.5% of the assessable profit during the years ended December 31, 2018, 2019 and 2020. No provision for Hong Kong Profits Tax was made as our Group did not have any assessable profit during the years ended December 31, 2018, 2019 and 2020 that arose in or was derived from Hong Kong.

LAT

Under relevant PRC laws and regulations, our property development business in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. As required by the local tax authorities in the PRC, we generally pay 2% to 4% of our pre-sale and sale proceeds as prepaid LAT each year and settle the final LAT payable in respect of our property development projects after the sale of the properties meets certain criteria. We make provisions for LAT upon recognition of revenue.

Deferred tax

Our deferred tax primarily represented the movement of our deferred tax assets and liabilities mainly arising from the temporary differences of accrued LAT, fair value of investment properties, deferred income and tax losses.

Discussion of Results of Operations

The following table sets out our consolidated results of operations for the years indicated:

| | For the year ended December 31, | | | |
|---|---|------------------|------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Revenue | 13,616,003 | 16,070,171 | 18,363,185 | 2,814,281 |
| Cost of sales | (9,112,135) | (10,828,170) | (12,427,653) | (1,904,621) |
| Gross profit | 4,503,868 | 5,242,001 | 5,935,532 | 909,660 |
| Other income | 351,707 | 308,478 | 380,098 | 58,253 |
| Other gains and losses | (179,135) | (221,777) | 852,383 | 130,633 |
| Net impairment reversal/(losses) on financial assets | (94,764) | 19,942 | (27,974) | (4,287) |
| Change in fair value of investment properties | 365,890 | 437,238 | (177,503) | (27,204) |
| Change in fair value upon transfer from inventories of properties to investment properties | 520,917 | – | – | – |
| Fair value change on financial assets at fair value through profit or loss | 12,930 | – | – | – |
| Distribution and selling expenses | (358,984) | (303,407) | (297,942) | (45,662) |
| Administrative expenses | (420,010) | (492,296) | (422,990) | (64,826) |
| Other expenses | (2,266) | – | – | – |
| Finance costs | (293,400) | (282,698) | (317,641) | (48,681) |
| Share of result of an associate | 86,449 | 82,056 | 125,041 | 19,163 |
| Profit before taxation | 4,493,202 | 4,789,537 | 6,049,004 | 927,049 |
| Income tax expense | (2,141,018) | (2,329,054) | (2,517,811) | (385,871) |
| Profit for the year/period | 2,352,184 | 2,460,483 | 3,531,193 | 541,178 |
| Other comprehensive income | | | | |
| Fair value gain on available-for-sale investment | 2,681 | – | – | – |
| Exchange differences arising on translation of foreign operations | (6,087) | 2,511 | (1,821) | (279) |
| Profit and total comprehensive income for the year | 2,348,778 | 2,462,994 | 3,529,372 | 540,899 |
| Profit and total comprehensive income (expense) for the year attributable to: | | | | |
| Owners of our Company | | | | |
| from continuing operations | 2,233,197 | 2,053,175 | 3,273,652 | 501,988 |
| Non-controlling interests | | | | |
| from continuing operations | 115,581 | 409,819 | 255,720 | 39,191 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Year ended December 31, 2020 compared to year ended December 31, 2019

Revenue

Our revenue increased by approximately 14.3% from approximately RMB16,070.2 million in 2019 to approximately RMB18,363.2 million (US\$2,814.3 million) in 2020, primarily due to an increase in our revenue from property development.

Our revenue from property development increased by approximately 14.0% from approximately RMB15,373.5 million in 2019 to approximately RMB17,529.5 million (US\$2,686.5 million) in 2020, primarily due to the delivery of projects in the established cities such as Hefei and Yangzhou.

Our revenue from property management increased by approximately 19.3% from approximately RMB485.8 million in 2019 to approximately RMB579.5 million (US\$88.8 million) in 2020, primarily driven by the growth of our GFA under management.

Our revenue from property rental increased by approximately 20.5% from approximately RMB210.9 million in 2019 to approximately RMB254.2 million (US\$39.0 million) in 2020, primarily due to the rapid growth of relevant business circles in Taizhou, Nanjing and Hefei.

Cost of sales

Our cost of sales increased by approximately 14.8% from approximately RMB10,828.2 million in 2019 to approximately RMB12,427.7 million (US\$1,904.6 million) in 2020, primarily due to increases in activities from the delivery of properties including in Jiangsu and Anhui in Yangtze River Delta Region.

Gross Profit

Our gross profit increased by approximately 13.2% from approximately RMB5,242.0 million in 2019 to approximately RMB5,935.5 million (US\$909.7 million) in 2020, primarily due to the increased delivery of properties with a higher gross profit margin.

Other Income

Our other income increased by approximately 23.2% from approximately RMB308.5 million in 2019 to approximately RMB380.1 million (US\$58.3 million) in 2020, primarily due to an increase in interest income on financial assets at fair value through profit or loss and bank deposits.

Other Gains and Losses

We recorded other gains of approximately RMB852.4 million (US\$130.6 million) in 2020. Our other gains mainly consist of foreign exchange gain of approximately RMB697 million as a result of the RMB exchange rate strengthening against the USD during the same year, fair value gains on derivative financial instruments of approximately RMB54 million as a result of the increase in trading price of our senior notes in the secondary market, fair value gain upon transfer of inventories of properties to investment properties of RMB21 million as well as gains arising from bargain purchase of RMB67 million.

Selling and Marketing Costs and Administrative Expenses

Our selling and marketing costs and administrative expenses decreased by approximately 1.8% from approximately RMB303.4 million in 2019 to approximately RMB297.9 million (US\$45.7 million) in 2020, mainly due to our stringent control over expenses and costs to maximize its Shareholder's interests.

Finance Costs

Our finance costs increased by approximately 12.4% from approximately RMB282.7 million in 2019 to approximately RMB317.6 million (US\$48.7 million) in 2020, primarily attributable to the increase in amounts of bank and other borrowings and senior notes in 2020.

Income Tax Expenses

Our income tax expenses increased by approximately 8.1% from approximately RMB2,329.1 million in 2019 to approximately RMB2,517.8 million (US\$385.9 million) in 2020, which was in line with the increase in our taxable profit in 2020.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by approximately 43.3% from approximately RMB2,463.0 million in 2019 to approximately RMB3,529.4 million (US\$540.9 million) in 2020 which was in line with the expansion of our business operation in 2020.

Year ended December 31, 2019 compared to year ended December 31, 2018 (restated)

Revenue

Our revenue increased by approximately 18.0% from approximately RMB13,616.0 million (restated) for 2018 to approximately RMB16,070.2 million (US\$2,274.6 million) for 2019, primarily due to an increase in our revenue from property development.

Our revenue from property development increased by approximately 17.1% from approximately RMB13,127.1 million (restated) for 2018 to approximately RMB15,373.5 million (US\$2,176.0 million) for 2019, primarily due to the delivery of Hefei Paris Metropolis in Anhui, Jiayuan Yurun Guifu in Yangzhou and T-plus in Hong Kong upon their completion.

Our revenue from property rental increased significantly by approximately 173.9% from approximately RMB77.0 million (restated) in 2018 to approximately RMB210.9 million (US\$29.9 million) in 2019, primarily due to an increase of monthly rental income generated from leasing contracts of the property investments during the period.

Our revenue generated from property management increased significantly by approximately 52.7% from approximately RMB318.2 million (restated) in 2018 to approximately RMB485.8 million (US\$68.8 million) in 2019. The increase was in line with the expansion of the operation of the property management business.

Cost of sales

Our cost of sales increased by approximately 18.8% from approximately RMB9,112.1 million (restated) for 2018 to approximately RMB10,828.2 million (US\$1,532.6 million) for 2019, primarily due to increases in activities from the delivery of properties including in Jiangsu and Anhui in Yangtze River Delta Region.

Gross profit

Our gross profit increased by approximately 16.4% from approximately RMB4,503.9 million (restated) in 2018 to approximately RMB5,242.0 million (US\$742.0 million) in 2019, primarily due to delivery of properties under certain projects, including T-plus, and Jiayuan Yurun Guifu Hefei Paris Metropolis, which contributed comparatively higher gross profit.

Other Income

Our other income decreased by approximately 12.3% from RMB351.7 million (restated) in 2018 to approximately RMB308.5 million (US\$43.7 million) in 2019. The decrease was due to a combination effect of decreased interest income on loan receivables and increase in interest income on financial assets at fair value through profit or loss and bank deposits.

Other Gains and Losses

Our other losses decreased by approximately 23.8% from approximately RMB179.1 million (restated) in 2018 to approximately RMB221.8 million (US\$31.4 million) in 2019. The decrease in other losses was mainly due to a combination effect of decreases in net foreign exchange losses of approximately RMB105.9 million in 2019, which was mainly attributable to the foreign exchange loss on borrowings denominated in USD against the depreciation of RMB against USD, as well as gains on disposal of investment in associates of RMB21.7 million, fair value loss of RMB55.4 million on derivative financial instruments and losses on deemed disposal of a subsidiary of RMB39.7 million during 2019.

Change in fair value of investment properties

Our change in fair value of investment properties (including change in fair value upon transfer from inventories of properties to investment properties) increased from RMB886.8 million (restated) in 2018 to RMB437.2 million (US\$61.9 million) in 2019. The increase was mainly due to increase in fair value of our investment properties in Nanjing and Yangzhou and inclusion of investment properties in Hefei.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 15.5% from approximately RMB359.0 million (restated) in 2018 to approximately RMB303.4 million (US\$42.9 million) in 2019, primarily due to the decrease in sales commission paid to property agent as a result of increased direct sales to customers in 2019.

Administrative expenses

Our administrative expenses increased by approximately 17.2% from approximately RMB420.0 million (restated) in 2018 to approximately RMB492.3 million (US\$69.7 million) for 2019, primarily due to the increase of staff salaries and allowances resulting from the expansion of our operation.

Finance costs

Our finance costs decreased by approximately 3.6% from approximately RMB293.4 million (restated) for 2018 to approximately RMB282.7 million (US\$40.0 million) for 2019, primarily due to the decrease in amounts of bank and other borrowings and senior notes in 2019.

Profit before taxation

As a result of the foregoing reasons, our profit before taxation increased from approximately RMB4,493.2 million (restated) in 2018 to approximately RMB4,789.5 million (US\$677.9 million) for 2019, representing an increase of approximately 6.6%.

Income tax expense

Our income tax expense increased by approximately 8.8% from approximately RMB2,141.0 million (restated) for 2018 to approximately RMB2,329.1 million (US\$329.7 million) in 2019, primarily due to the increase in profit from the property development segment in 2019, which was partially offset by the increase in deferred taxation expense for the year ended December 31, 2019.

Profit for the year

As a result of the foregoing reasons, our profit for the year increased by approximately 4.6% from approximately RMB2,352.2 million (restated) for 2018 to approximately RMB2,460.5 million (US\$348.3 million) for 2019.

Liquidity and Capital Resources

Our liquidity requirements primarily related to capital expenditures, working capital needs and debt services. During the years ended December 31, 2018, 2019 and 2020, we funded our growth principally from cash generated from our operations and borrowings. We did not experience any liquidity shortage during the years ended December 31, 2018, 2019 and 2020. Going forward, we expect cash flows from operations, credit facilities and funding from future fund raising transactions to be our principal sources of liquidity.

We seek to manage our working capital to ensure the availability of sufficient cash flows to meet unexpected cash requirements arising from our business, which in turn safeguard our ability to continue as a going concern. We have also adopted capital management policies under which and we closely regulate and monitor, among other things, our cash and bank account management, inventory control system, payment and settlement terms, and loan procedures. In general, we prepare, on a regular basis, cash flow and funding summaries and budgets with a view to conducting financial planning in advance

and monitoring our cash flows, ensuring our working capital sufficiency and maximizing utilization of our capital resources. Our Directors and senior management hold regular meetings to review our periodic operating budgets.

Cash Flows

The following table sets forth our cash flows for the years presented:

| | For the year ended December 31, | | | |
|--|---|------------------|------------------|-----------------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated)¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Net cash from operating activities | 6,606,100 | 8,001,339 | 1,995,600 | 305,839 |
| Net cash (used in)/from investing activities | (5,051,621) | 1,217,042 | (1,263,822) | (193,689) |
| Net cash from (used in)/financing activities | (3,534,575) | (7,899,231) | 2,334,895 | 357,838 |
| Net increase (decrease) in cash and cash equivalents | (1,980,096) | 1,319,150 | 3,066,673 | 469,988 |
| Cash and cash equivalents at the beginning of the year | 6,392,341 | 4,599,433 | 6,030,412 | 924,201 |
| Exchange gains on cash and cash equivalents | 187,188 | 111,829 | (94,345) | (14,459) |
| Cash and cash equivalents at the end of the year | <u>4,599,433</u> | <u>6,030,412</u> | <u>9,002,740</u> | <u>1,379,730</u> |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Net cash from operating activities

Our cash generated from operating activities primarily comprised proceeds from pre-sales and sales of our properties. Our cash used in operating activities primarily comprised payments for our property development and land acquisition.

For the year ended December 31, 2020, our net cash from operating activities was RMB1,995.6 million (US\$305.8 million). Such amount was derived from our profit before tax for the year of approximately RMB6,049.0 million (US\$927.0 million), primarily adjusted by: (i) a decrease in inventories of properties of RMB2,066.1 million (US\$316.6 million), (ii) a decrease in trade and other receivables of RMB1,798.5 million (US\$275.6 million) and (iii) a decrease in restricted bank deposits of RMB985.0 million (US\$151.0 million).

For the year ended December 31, 2019, our net cash from operating activities was RMB8,001.3 million. Such amount was derived from our profit before tax for the year of approximately RMB4,789.5 million, primarily adjusted by: (i) an increase in pre-sale deposits received of approximately RMB1,139.5 million; (ii) a decrease in trade and other receivables of RMB1,737.1 million; and (iii) a decrease in inventories of properties of approximately RMB629.2 million.

For the year ended December 31, 2018, our net cash from operating activities was RMB6,606.1 million (restated). Such amount was derived from our profit before taxation for the year of approximately RMB4,493.2 million (restated), primarily adjusted by: (i) an increase in pre-sale deposits received of approximately RMB4,421.2 million (restated); (ii) an increase in trade and other receivables, deposits and prepayments of RMB1,791.4 million (restated); and (iii) a decrease in inventories of properties of approximately RMB955.5 million (restated).

Net cash generated from (used in) investing activities

Cash generated from our investing activities primarily represented repayments from related companies and withdrawal of restricted bank deposits. Cash used in our investing activities mainly represented acquisition of subsidiaries, advances to related parties and placement of restricted bank deposits.

For the year ended December 31, 2020, our net cash used in investing activities was RMB1,263.8 million (US\$189.5 million), primarily due to (i) capital injection to investments accounted for using the equity method of RMB1,303.5 million (US\$199.8 million) and (ii) placement of restricted/pledged bank deposits of RMB800.0 million (US\$122.6 million), partially offset by withdrawal of restricted/pledged bank deposits of RMB860.7 million (US\$131.9 million).

For the year ended December 31, 2019, our net cash generated from investing activities was approximately RMB1,217.0 million, primarily due to (i) repayment from related companies of RMB3,479.2 million, (ii) withdraw of restricted/pledged bank deposit of RMB966.0 million, partially offset by advances to related companies of RMB1,825.7 million.

For the year ended December 31, 2018, our net cash used in investing activities was approximately RMB5,051.6 million (restated), primarily due to (i) the cash outflow for the acquisition of subsidiaries of RMB4,097.9 million (restated), (ii) placement of restricted/pledged bank deposits of approximately RMB2,906.0 million (restated) and (iii) advances to non-controlling interests of RMB1,310.0 million (restated).

Net cash generated from (used in) financing activities

Cash generated from our financing activities primarily represented the proceeds from bank and other borrowings and advances from related parties. Cash used in our financing activities primarily represented repayments of bank and other borrowings and repayments to related parties.

For the year ended December 31, 2020, our net cash generated from financing activities was RMB2,334.9 million (US\$357.8 million), primarily due to (i) proceeds from bank and other borrowings of RMB5,948.2 million (US\$911.6 million), (ii) advances from related parties of RMB1,464.5 million (US\$224.4 million) and (iii) capital contribution from non-controlling interests of RMB1,491.4 million (US\$228.6 million), partially offset by (i) repayment of bank and other borrowings of RMB7,495.1 million (US\$1,148.7 million) and (ii) interest paid of RMB2,462.8 million (US\$377.4 million).

For the year ended December 31, 2019, our net cash used in financing activities was approximately RMB7,899.2 million, primarily due to (i) repayments of borrowings of approximately RMB10,490.3 million; and (ii) repayment of senior notes of approximately RMB4,644.1 million, partially offset by (i) proceeds from borrowings of approximately RMB7,819.6 million, (ii) proceeds from the issue of senior notes of approximately RMB2,731.0 million.

For the year ended December 31, 2018, our net cash used in financing activities was approximately RMB3,534.6 million (restated), primarily due to (i) proceeds from the issue of senior notes of approximately RMB6,136.2 million (restated), which was partially offset by repayments of senior notes of approximately RMB3,918.1 million (restated); (ii) proceeds from borrowings of approximately RMB7,244.1 million (restated), which was offset by repayments of borrowings of approximately RMB8,947.3 million (restated); and (iii) advances from non-controlling interests of approximately RMB523.3 million (restated).

Indebtedness

Bank and other borrowings

The following table sets out a breakdown of our bank and other borrowings as of the dates indicated:

| | As of December 31, | | | |
|----------------------------------|-------------------------|-------------------|-------------------|------------------|
| | 2018 | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ |
| | (unaudited) | | | (unaudited) |
| | (restated) ¹ | | | |
| | (In thousands) | | | |
| Bank loans, secured | 6,646,875 | 4,060,055 | 7,271,276 | 1,114,372 |
| Bank loans, unsecured | – | 500 | – | – |
| Trust loans, secured | 5,831,200 | 7,015,605 | 3,660,945 | 561,064 |
| Trust loans, unsecured | – | 687,624 | – | – |
| Other loans, secured | 2,323,846 | 366,395 | 1,700,406 | 260,599 |
| Other loans, unsecured | – | – | – | – |
| Total | 14,800,921 | 12,130,179 | 12,632,627 | 1,936,035 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

The following table sets out the range of effective interest rates of our bank and other borrowings as of the dates indicated:

| | As of December 31, | | |
|-----------------------|--------------------|----------------|----------------|
| | 2018 | 2019 | 2020 |
| | (restated) | | |
| | (unaudited) | | |
| Bank loans | 1.9% to 10.5% | 1.6% to 9.5% | 1.6% to 11.7% |
| Trust loans | 6.4% to 15.0% | 7.1% to 14.0% | 12.0% to 14.0% |
| Other loans | 9.0% to 15.0% | 12.0% to 12.8% | 7.1% to 12.9% |

Our bank and other borrowings were denominated in Renminbi and HK dollars.

While our bank loans represented borrowings from banks in the PRC and Hong Kong, trust loans represented our trust financing from trust companies to fund some of our property development projects. Please see “Our Business – Project financing” for details of our trust financing arrangements. We use trust financing as a supplement to bank loans, as we believe it is more flexible in terms of availability and tenor (compared to bank loans).

Our other loans mainly consisted of loans from asset management companies and finance companies, staff loans and loans from other third parties which were not financial institutions, trust companies, asset management companies.

The decrease in our bank and other borrowings from December 31, 2018 to December 31, 2019 was primarily because we proactively carried out a series of internal reforms to optimize capital and debt structure by adopting a strategy of prudent investment in 2019.

Our bank and other borrowings amounting to approximately RMB2,299.1 million (restated), RMB6,470.8 million and RMB12,328.3 million (US\$1,889.4 million) as of December 31, 2018, 2019 and 2020, respectively, were secured and guaranteed by our assets.

As of December 31, 2018, 2019 and 2020, certain assets of our Group, including prepayments and deposits paid for life insurance policies, property and equipment, investment properties, properties under development, properties held for sale and bank balances, were pledged to secure certain of our bank and other borrowings. The following table sets out the carrying amount of our assets that were pledged to secure certain of our bank and other borrowings as of the dates indicated:

| | As of December 31, | | | |
|---|---|-------------------|-------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Financial assets at fair value through profit or loss | 14,958 | 14,866 | 16,604 | 2,545 |
| Property and equipment | 73,946 | 72,312 | 72,395 | 11,095 |
| Investment properties | 1,048,391 | 2,478,600 | 3,462,100 | 530,590 |
| Properties under development | 14,185,426 | 9,841,317 | 12,408,591 | 1,901,700 |
| Properties held for sale | 370,534 | 606,049 | 3,510,660 | 538,032 |
| Pledged bank deposits | 1,965,481 | 259,083 | 876,111 | 134,270 |
| Total | 17,658,736 | 13,272,227 | 20,346,461 | 3,118,232 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

The following table sets out the maturity of our bank and other borrowings as of the dates indicated:

| | As of December 31, | | | |
|---|---|-------------------|-------------------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Within one year or on demand | 7,012,996 | 4,667,930 | 1,377,858 | 211,166 |
| More than one year, but not exceeding two years | 4,790,635 | 4,670,637 | 9,472,288 | 1,451,692 |
| More than two years, but not exceeding five years | 2,997,290 | 2,791,612 | 1,782,481 | 273,177 |
| Total | 14,800,921 | 12,130,179 | 12,632,627 | 1,936,035 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Holdings Limited, a company incorporated in the British Virgin Islands (the “Chuangyuan Group”) and Huiyuan Investment Holdings Limited, a company incorporated in the British Virgin Islands (the “Huiyuan Group”). See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Contingent Liabilities

Our contingent liabilities primarily represented guarantees we provided to banks for mortgage loans taken out by our customers to purchase our properties. Under the terms of the guarantees, if a customer defaults on its mortgage payments, we are responsible for repaying the outstanding mortgage loans together with any accrued interest and penalties owed by the defaulting customer to the bank. Typically, these guarantees terminate when the customer obtains the building ownership certificate and the mortgage registration for the relevant property is completed. The duration of our guarantees vary on a case-by-case basis subject to, among other things, the time at which our customers obtain the relevant mortgage loans. Since: (i) the delivery of properties to our customers generally takes place within two years from the date of the relevant sales contract; and (ii) it is our policy to assist our customers with obtaining the relevant building ownership certificates within six months from, among other things, the date of delivery of the relevant properties, the duration of our guarantees are generally within two and a half years from the date of the relevant sales contract. The guaranteed amount is limited to the mortgage loan amount. We did not incur any material losses during the years ended December 31, 2018, 2019 and 2020 with respect to the guarantees we provided for mortgage bank loans taken out by our customers.

Our total contingent liabilities as of December 31, 2018, 2019 and 2020 amounted to approximately RMB11,393.2 million (restated), RMB13,289.6 million and RMB10,776.3 million (US\$1,651.5 million), respectively. For more information, please see note 38 of our consolidated financial statements for the year ended December 31, 2018.

Commitments

The following table sets out our commitments as of the dates indicated:

| | As of December 31, | | | |
|---|---|------|---------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB (unaudited) (restated) ¹ | RMB | RMB | US\$ (unaudited) |
| | (In thousands) | | | |
| Contracted but not provided for: | | | | |
| Investments accounted for using the equity method | – | – | 143,774 | 22,034 |
| Investment properties under construction. | – | – | 622,471 | 95,398 |
| Acquisitions of entities. | – | – | 269,811 | 41,350 |

(1) The financial information for the year ended December 31, 2018 has been restated as a result of our acquisition of Chuangyuan Group and Huiyuan Group. See note 1 of our consolidated financial statements for the year ended December 31, 2019 for further details.

Except as set forth above and in the notes to our financial statements, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

We are exposed to various market risks, including commodities risk, interest rate risk and foreign exchange rate risk. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. We do not enter into derivative financial instruments for hedging purposes. During the years ended December 31, 2018, 2019 and 2020, there was no significant change to our exposure to our market risks or the manner in which we manage and measure them.

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 business is sensitive to fluctuations in interest rates. Our indebtedness are typically fixed rate borrowings that are subject to negotiation in interest rate on an annual basis and any increase in interest rates will increase our finance costs. We currently do not hedge our interest rate risk, but may do so in the future.

An increase in interest rates may also adversely affect our prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue, gross profits and profits. The PBOC benchmark one-year lending rates in China (which directly affect the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2018, 2019 and 2020 were 4.35% and 4.35% and 4.35%, respectively.

Foreign Exchange Rate Risk

We conduct our business exclusively in Renminbi. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket

of certain foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar. Fluctuations in the value of Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position. For example, if the value of Renminbi appreciates, we would record foreign exchange losses on bank balances and other assets we maintain in non-Renminbi currencies. See “Risk Factors – Risks Relating to the PRC – Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment.” We currently do not hedge our foreign exchange risk but may do so in the future.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- Depreciation
- Finance costs
- Income tax expenses

EBITDA is not a standard measure under HKFRS. 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 year 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 measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies’ results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

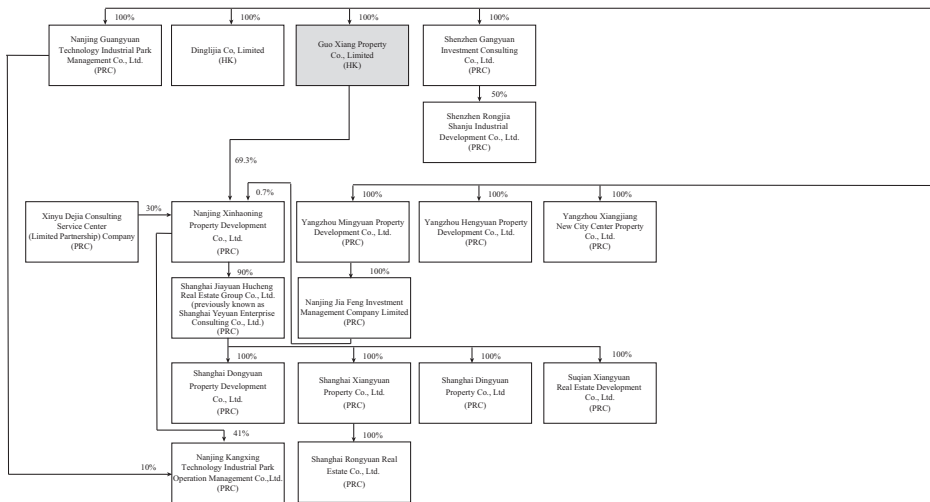
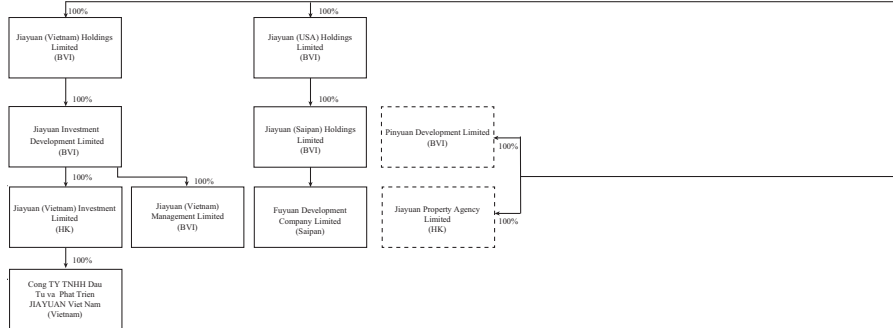
The following table reconciles our profit for the year under HKFRS to our definition of EBITDA for the years indicated.

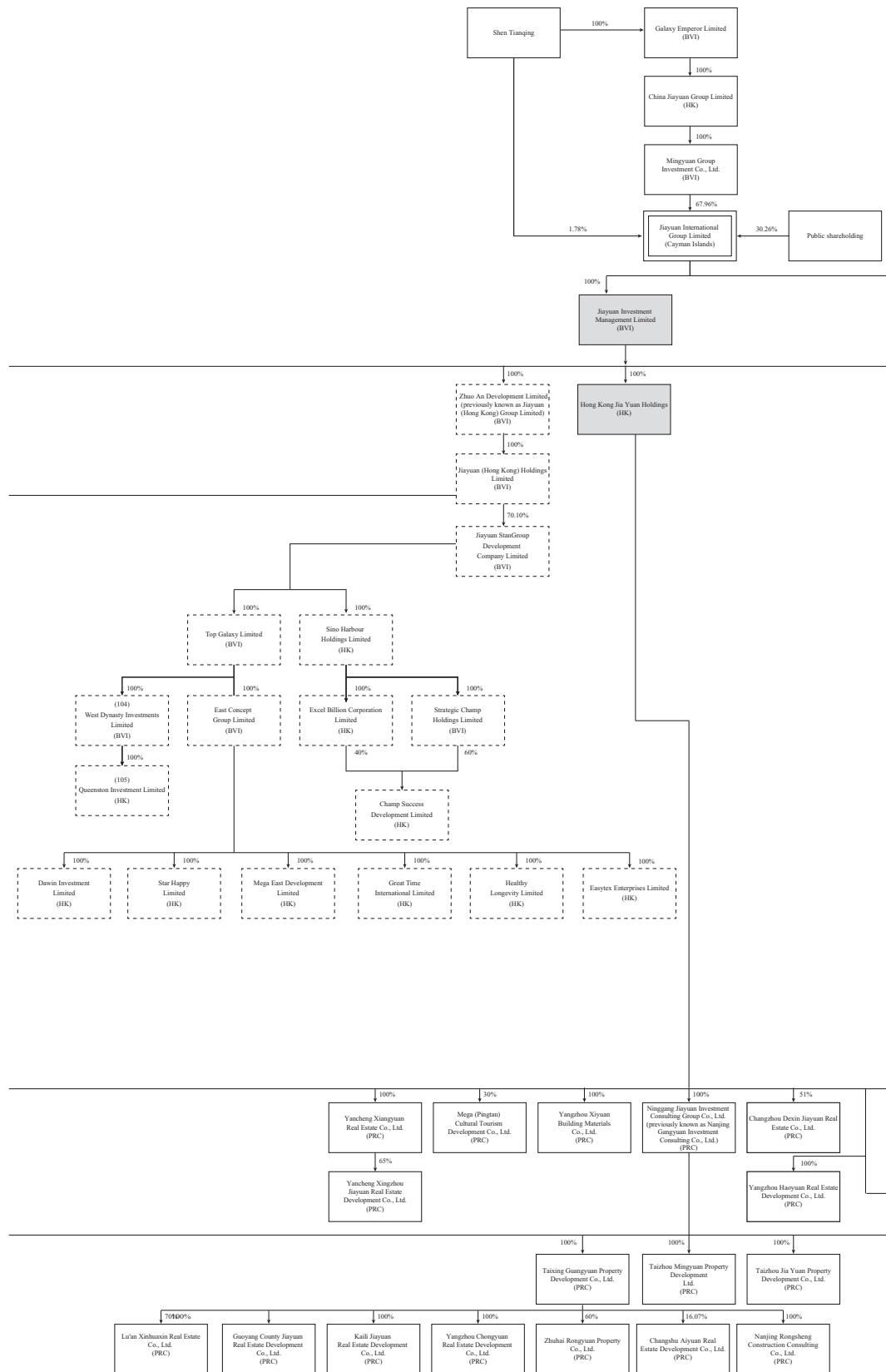
| | For the year ended December 31, | | |
|--|--|-----------------------|-------------|
| | 2018 | | |
| | (unaudited) | 2019 | 2020 |
| | (restated) | RMB | RMB |
| | RMB | (In thousands) | |
| Revenue | 13,616,003 | 16,070,171 | 18,363,185 |
| Profit after tax for the year | 2,352,184 | 2,460,483 | 3,531,193 |
| Adjustments: | | | |
| Finance costs | 293,400 | 282,698 | 317,641 |
| Income tax expense | 2,141,018 | 2,329,054 | 2,517,811 |
| Depreciation | 14,553 | 12,785 | 19,569 |
| EBITDA | 4,801,155 | 5,085,020 | 6,386,214 |
| EBITDA margin | 35% | 32% | 35% |

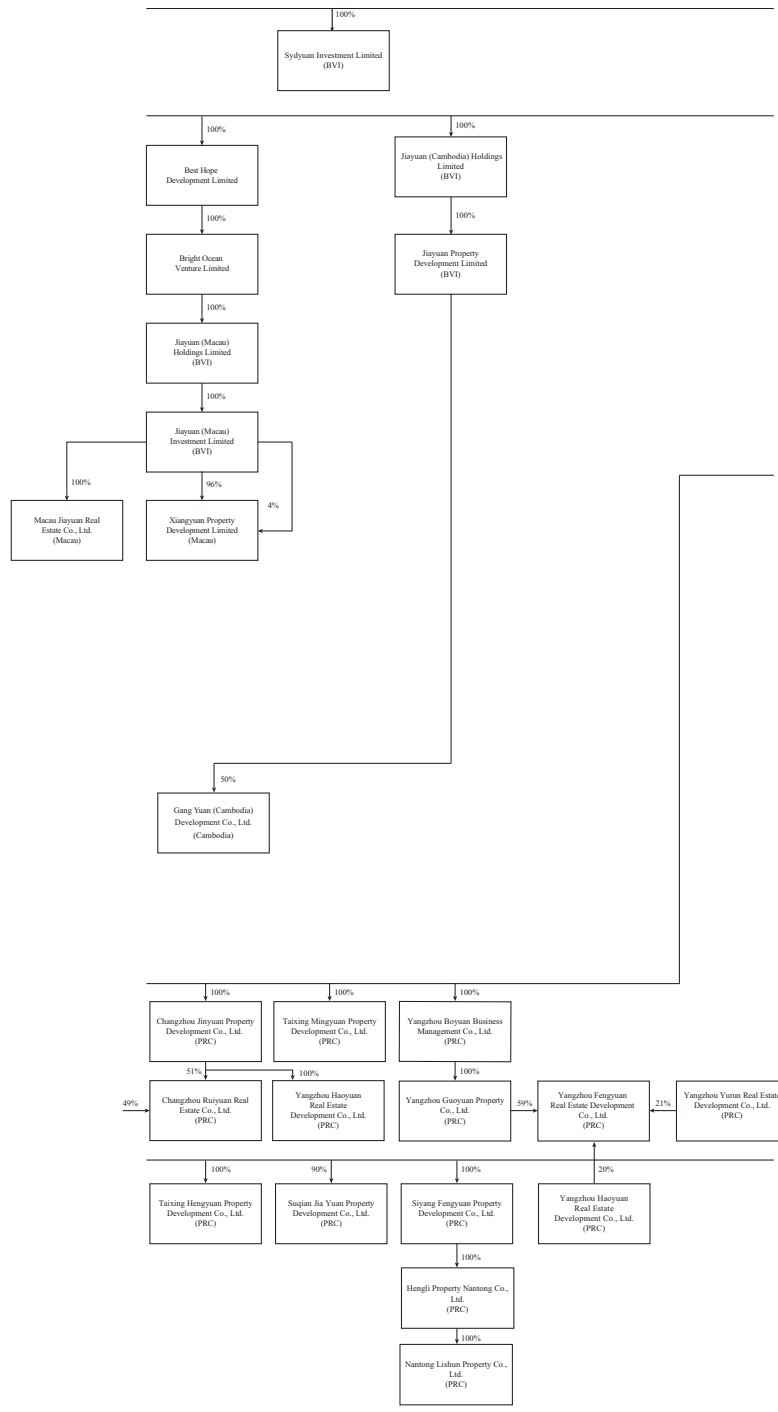
You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year or period or as an indicator of operating performance or any other standard measure under HKFRS. Our definition of EBITDA does not account for income taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

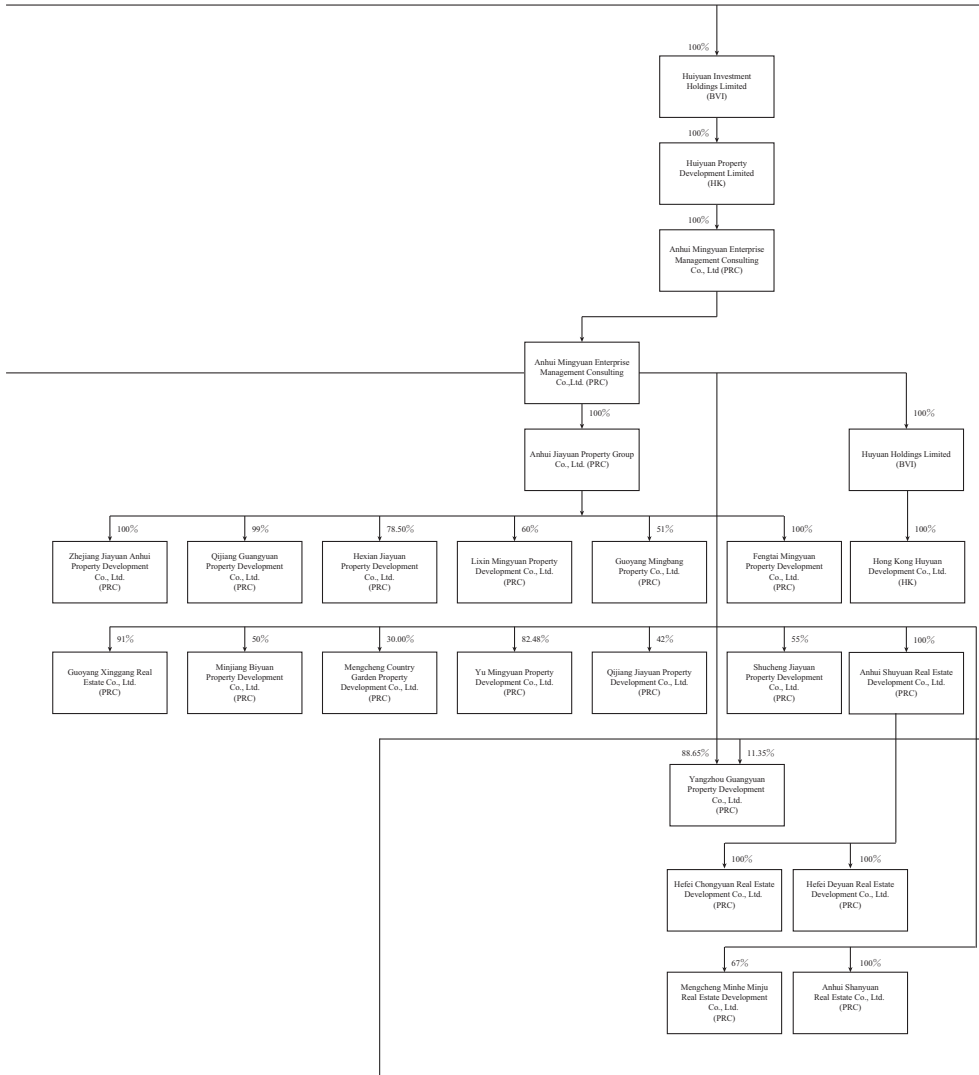
CORPORATE STRUCTURE

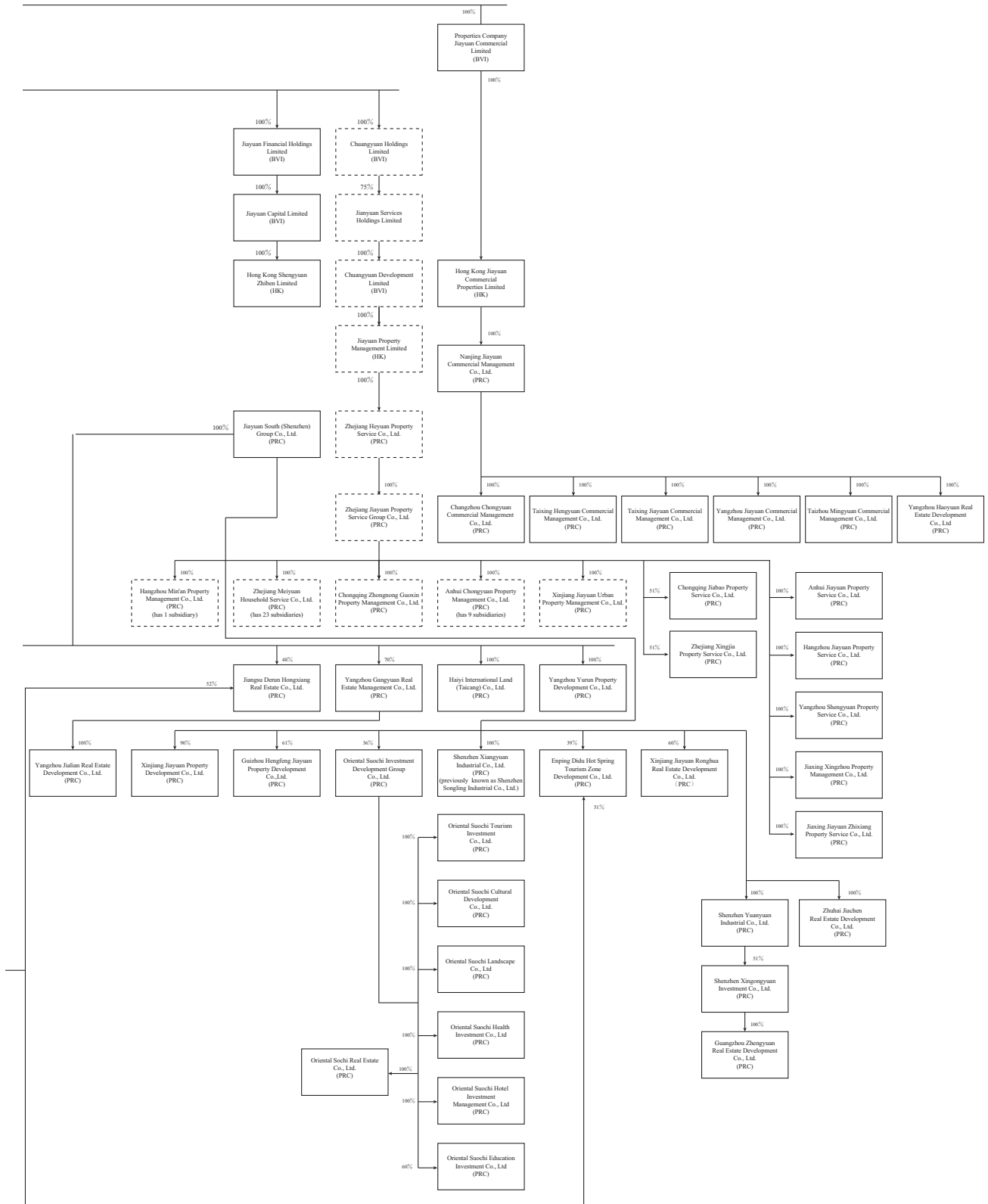
The following chart sets out our simplified shareholding and corporate structure as of the date of this offering memorandum:











BUSINESS

Overview

We are an established property developer of large-scale residential complex projects and integrated commercial complex projects in the PRC. Our main business operations include: (i) the development and sale of residential and commercial properties; (ii) the provision of development services; and (iii) property investment, which mainly consists of leasing commercial properties owned or developed by us.

Adhering to our sound and stable development strategies of “be delicate, be detailed oriented, offer good quality and maintain strong market position (做精、做細、做好、做強)”, we had, as of December 31, 2020, a portfolio of 88 property development projects in various major cities or key towns in the PRC, comprising 42 residential complex projects, 45 integrated commercial complex projects and one commercial complex project. As of December 31, 2020, we had a land reserve of approximately 17.7 million sq.m. covering Yangtze River Delta Region, Anhui Province, city cluster in the Guangdong-Hong Kong-Macao Greater Bay Area, cities along the “Belt and Road” regions and other key provincial capital cities. Under our sound and stable development strategies, we will focus our development effort on: (i) residential properties in major cities such as Nanjing, Yangzhou and Shenzhen; and (ii) integrated commercial complexes in “key towns”(中心鎮) or towns which are under key development, such as Taizhou and Changzhou.

In response to the national policy of continuing urbanization and the call for city modernization emphasised by the Jiangsu Provincial Government, we envision that key towns will be developed into major economic and transportation hubs among neighbouring towns, facilitating the pull factors for urbanization. We expect that the economic development of key towns will also enrich the disposable income of the local residents, which, in turn, will attribute to a healthy demand for residential and commercial properties. We generally select key towns where the level of development of commercial infrastructure is relatively immature for the development of our integrated commercial complexes with a view to satisfying the demand for commercial properties in such key towns. We believe that the implementation of our sound and stable development strategies is imperative in maximizing our profitability and minimizing competition. We also plan to adhere to these sound and stable development strategies to expand our operations to develop residential complexes in cities with sizeable regional economies and populations such as Guangzhou and Shenzhen with a view to maximizing our return under the projected property demand in the PRC.

Our residential complexes and integrated commercial complexes have been or will be developed into mixed-use communal style complexes, which are designed to provide a high level of convenience and enjoyment to our customers. In this regard, we take pride in the following key values of our property development projects:

- *Education value:* we appreciate the importance of education to our customers who are parents. Hence, we aim to choose project sites which are located in a relatively established school network. Since our inception, we have participated in the construction of five schools including a nursery school which are located within our property development projects.
- *Leisure value:* we generally apportion a sizeable section of site area for the development of European-Chinese themed scenic gardens and squares featuring classical or neo-classical landmarks. These gardens and squares are designed not only for the leisure of our customers, but also for the provision of visual appeal to the owners of our products and potential customers. We believe that this also gives the owners of our products a sense of pride for owning our products.
- *Commercial value:* as our property development projects are planned to be developed into communal style complexes, we develop retail stores and shopping arcades in our residential properties to provide “one-stop” shopping experience to our customers and satisfy the daily needs of our residential customers and surrounding local residents. In order to achieve the above and maximize our profitability, we plan to retain control over central management of our shopping arcades which enables us to select tenants and their industry composition.

We believe that our quality property development projects are or will be well received in the locations in which we operate or plan to expand our operation.

On March 8, 2016, we completed our initial public offering with our shares listed on the Main Board of the Hong Kong Stock Exchange (the “Listing”). Since the Listing, we have become a constituent stock of benchmarking indices, including Hang Seng Composite Small Cap Index, MSCI China Small Cap Index, Hang Seng Stock Connect Hong Kong Index and Shenzhen-Hong Kong Stock Connect stock list. In addition, we became a constituent stock of the Hang Seng Composite Large Cap & Mid Cap Index on September 10, 2018.

Over the years, we have received numerous awards and accolades from government authorities, media organizations and unions of property developers in Jiangsu Province for the high quality of our property development projects. We believe that these awards represent an indication of the remarkable quality of our Group and our property development projects.

Competitive Strengths

We believe that the following competitive strengths contribute to our success in the property development market and distinguish us from our competitors:

A design, planning and quality control process that ensures quality of our products

We believe that our design, planning and quality control process ensures the quality of our products and enhances their appeal which is fundamental to our performance.

We believe that our design is innovative. Our innovation is exemplified by one of our key designs which aims to achieve a significant segregation of vehicles from pedestrians. This design aims to maximize surface leisure areas for our residents by diverting all incoming traffic to an extensive underground travelling area, which is accessible to all residential buildings and their respective car parks within the relevant complex.

We also strive to adopt and apply new technologies in our property development projects. In 2016, we partnered with WinSun Decoration Design Engineering, the Shanghai-based architectural firm focusing on 3-D printing, and we plan to apply 3-D printing technology for landscape gardening and outdoor products as part of our property projects. We believe 3-D printing technology would effectively reduce both time and costs for construction and enables us to provide customized designs. This technology is also expected to reduce the construction costs, pollution and waste.

We place great emphasis on the quality of our properties. We believe that, over the years, we have established a brand image that is associated with high standards of quality for our project. We aspire to maintain a high standard of quality for our properties at different stages of the development process and have put in place the following measures for maintaining our quality:

- (i) In order to develop quality property complexes, we usually engage construction contractors that possess National Housing Construction General Contracting First Grade Qualification Certificate (國家房屋建築工程施工總承包一級資質認證) and satisfactory track record.
- (ii) During the construction process of our property development projects, we and/or the third-party certified construction supervision companies we engage will conduct regular inspection with a view to ensuring that the quality of the relevant construction work is at par with our stipulated standard. Based on our development experience and expertise, we have put in place relevant guidelines setting out countermeasures for dealing with common discrepancies which are usually found in construction works. We believe that these guidelines expedite the inspection and rectification process without compromising the requisite quality.

- (iii) Following the completion of the construction process, completion inspection will be conducted by our regional project company, as well as our headquarters before delivery of properties or, in respect of our shopping arcades, before commencement of business operation.

We believe that our design, planning and quality control procedures has helped us and will continue to help our future business development and performance.

An operation system that saves time and costs in the development of quality property projects

Our performance and financial stability is closely associated with our operational efficiency. We believe that due to our established operation system, we have generally been able to develop quality property projects in a timely and cost efficient manner. Our operation system governs, among other things: (i) our efficient execution; and (ii) the construction costs control requirements of our development process.

Efficient execution

We believe that our relatively efficient execution is, to a significant extent, attributable to our operating system which stipulates the acceptable time requirement for various types of construction work as well as our operation experience. Based on our experience in the property development industry, we have compiled our standardized design plans which set out details of the basic design requirements applicable to all of our property development projects. Accordingly, we are capable of adopting the standardized design plans and modifying the same according to the needs of the relevant property development project in a relatively efficient manner. For example, we developed four high-rise apartments and four retail stores for Elite International Garden constituting an aggregate GFA of approximately 97,790 sq.m. in a span of approximately 26 months. Moreover, we generally acquire project land through government organized public auctions and listing-for-sale process, or by acquiring equity interest in companies that own the project land. As of December 31, 2020, we had land reserves of approximately 17.7 million sq.m. in terms of GFA attributable to us. We believe that our land reserves are sufficient for our operations for the next three years.

Construction costs control

Due to our established operation system, we are usually capable of effectively controlling the construction costs required for developing the property development project. We control our development costs at various stages of our development process.

Prior to the commencement of construction work, we usually select our construction contractors through a public tender process. Under such selection process, we assess each candidate under a set of criteria, which includes construction costs. Such construction costs are typically inclusive of the costs of major raw materials to be procured by the construction contractor, such as steel and cement, for the construction works. Where we are responsible for acquiring certain raw materials, it is our policy to seek quotations from potential suppliers with a view to acquiring such raw materials at relatively low costs. Further, we have established measures for controlling construction costs to be incurred during site formation works, landscaping, piling formation works, erection of lateral support for excavation works (including dewatering work), foundation treatment as well as erection of curtain walls.

The established “Jia Yuan” brand and reputation well recognized in Jiangsu Province

We have been operating in Jiangsu Province since our inception in 2003. Over the years, we have a track record of developing award-winning properties in Jiangsu Province. For instance, our Suqian Park Number One, a residential complex project, was awarded as Innovative Real Estate in Jiangsu Province of 2012 (2012年度江蘇省創新樓盤) by Jiangsu Real Estate Association, for, among other things, the exceptional conceptual and design innovation of this project.

We believe that we have successfully fostered our “Jia Yuan” brand and established ourselves as a proficient property developer. As a testament of our success in this regard, we received the award as a Pioneer Enterprise of Small Town Development (小城市建設先進個體) by the Management Committee of Jiangyan Qinhu Scenic Spot (薑堰市溱湖風景區管理委員會) in January 2012. We were also recognised as a Pioneer Enterprise in Property and Economic Development of 2011 (2011年度建築經濟、房地產開發工作先進單) by the Jiangyan City Government in March 2012.

In 2016, we won several industry awards in Hong Kong and mainland China, including the Hong Kong Outstanding Enterprises Award 2016 (2016年香港杰出企業) granted by Economic Digest and the Excellence of China Real Estate Award (卓越中國房地產品牌) granted by Metro Daily and Metro Prosperity. Our wholly-owned subsidiary, Nanjing Xinhaoning, also won the 2016 Outstanding Real Estate Brand (2016年度優秀企業) in China granted by the provincial government of Xuanwu District, Nanjing City. Our wholly-owned subsidiary, Taixing Hengyuan, won the 2016 Annual Urban Construction Tax Contribution Award (2016年度城市建設納稅貢獻) in China, granted by the provincial government of Huangqiao, Taixing City. Our wholly-owned subsidiary, Hengli Property Nantong Co., Ltd (恒力房地產南通有限公司), also won the 2016 Tongcheng Annual Hot Real Estate (通城2016年度熱銷樓盤) in Nantong and the 2017 Nantong Potential Real Estate (2017年南通潛力樓盤) in China granted by TencentQQ.com. Our wholly-owned project, Zhenjiang Jiayuan Paris Metropolis (鎮江佳源巴黎都市), won the 2017 Jiangsu Province Construction and Construction Standardization Star Site (2017年江蘇省建設施工標準化星級工地) granted by Jiangsu Provincial Department of Housing and Urban-Rural Development.

We believe that these awards and accolades are imperative for enhancing our brand recognition and customers’ loyalty as we expand.

A stable and experienced management team and organizational structure that promote operational efficiency

We have an experienced and stable management team with diverse background and substantial expertise in the property development industry. Our Chairman and non-executive director, Mr. Shum Tin Ching, has approximately 22 years of experience in the property development industry in the PRC. Other members of our senior executive management team also have strong background with relevant experience within the industry generally ranging from approximately 10 to 25 years. We are therefore well-positioned to benefit from the expertise, experience and network of our senior management when we conduct our business.

In order to retain talent, we offer vocational training to our employees with a view to improving their performance. We believe the remuneration packages offered to our employees are competitive in the markets in which we operate.

We have adopted a two-tiered management and organizational structure with our headquarters as the first tier and regional project companies as the second tier. Each tier of management is vested with separate duties and responsibilities. We believe that the clear delineation of roles and functions contributes to our operational efficiency. Please see “– Our management and organizational structure”.

We believe that our management team as well as our management and organization structure have significantly contributed to our success and will continue to be critical to our future growth.

Business Strategies

We aim to become one of the leading property developers in the PRC. We plan to achieve this target through adopting and implementing the following strategies:

Expand our operations in Jiangsu Province and other parts of China

Adhering to our sound and stable development strategies of “be delicate, be detailed oriented, offer good quality and maintain strong market position”

Leveraging our reputation and experience in developing residential complex projects and integrated commercial complex projects, we intend to expand our operations in Jiangsu Province and other parts of China outside Jiangsu Province in which we currently do not have a presence. In this regard, we intend to adhere to our sound and stable development strategies of “be delicate, be detailed oriented, offer good quality and maintain strong market position (做精、做細、做好、做強)”. Under this strategy, we aim to concentrate our development effort on: (a) residential complexes in major cities with relatively large population size, high GDP per capita, established transportation system and infrastructure and (b) integrated commercial complexes in prime locations of selected key towns where the level of development of commercial infrastructure is relatively immature. We aim to select key towns that have a population size of approximately 50,000 to 100,000 and established transportation system, where the developing local economies contribute to the local residents’ increasing disposable income, facilitating a healthy demand for commercial and residential properties.

Expansion plans in Jiangsu Province

According to the Jiangsu Statistics Bureau, Jiangsu Province’s GDP increased steadily from RMB6,508.8 billion in 2014 to RMB9,259.5 billion in 2018 at a CAGR of 9.2%. To leverage Jiangsu Province’s strong GDP growth, we plan to deploy our resources to property development markets in “key towns”(中心鎮) or towns which are under key development in Jiangsu Province, in response to various policies that requires, among other things, accelerating city modernization, enhancing competitiveness at the city level and improving living conditions. We envision that these policies will help key towns develop into major economic and transportation hubs among neighbouring towns, facilitating the pull factors for urbanization. We also expect that the economic development in such key towns will also contribute to an increase in the local residents’ disposable income, which will facilitate a healthy demand for commercial and residential properties. We believe that an early investment in these key towns as one of the pioneers will be supported by the relevant local government and will be financially rewarding. We have started the construction works on eight integrated commercial complex projects in Nanjing City (南京市), Guxi town (古溪鎮) urban area of Taixing City, Yangzhou City (揚州市) and Xueyan town (雪堰鎮) in Changzhou and Taizhou (泰州).

Expansion plans in other parts of China outside Jiangsu Province

In respect of our expansion plans in other parts of China outside Jiangsu Province, we will continue to develop our presence in first- and second-tier cities in other provinces in China that exhibit strong demand for mid- to high-end real estate. We have acquired land parcels in Shenzhen, Macau and Guiyang in 2017 and 2018. We have acquired land parcels in Anhui in 2019. Going forward, we plan to further expand into (i) provincial capital cities such as Guangzhou, Fuzhou, Wuhan, Changsha, Nanchang, Nanning and Jinan; (ii) prefectural level cities such as Zhuhai and Shantou; (iii) state-plan designated cities such as Xiamen, Dalian and Shenzhen; and (iv) municipalities and special administrative regions such as Chongqing, Hainan and Macau. We believe that the population size and GDP level of these cities tend to support strong demand for residential and commercial space. We intend to acquire project land in these cities either by participating in public auction and listing-for-sale process or by acquisition of equity interest of companies that own the relevant project land in these cities.

We plan to replicate our standardized design plans (either with or without modification) in areas which we intend to expand in order to swiftly seize any business opportunity that may arise.

Enhance the recognition of “Jia Yuan” brand

We believe that we have successfully established our presence in locations in which we operate. In order to cope with our expansion strategies, we plan to continue to enhance our brand recognition. We intend to achieve this by developing new innovative project designs or refining existing project designs

with a view to attracting target customers of varying architectural taste. For instance, while we had been developing European themed complexes, we commenced the development of our Zijin Mansion in 2014, which comprises a classical Chinese themed residential complex project.

We appreciate the close association of our “Jia Yuan” brand and the quality of our products. In order to maintain our brand image, we will continue to promote our key values, namely the education value, leisure value and commercial value in the development process of our property development projects. In achieving this, we plan to: (i) continue to develop schools within our property development projects or otherwise select project sites which are located in established school networks; (ii) persist in the development of quality and sizeable gardens and squares to enhance the general appeal of our property development projects; and (iii) enhance the commercial value of our commercial properties through retaining control over central management of our commercial properties in shopping arcades.

Further, it is our plan to promote our “Jia Yuan” brand by organizing, sponsoring and participating in press conferences and exhibitions in addition to our usual marketing means through media and billboard advertisements.

Recruit, retain and train talented employees

We recognise the importance of retaining a team of highly skilled and motivated workforce for our expansion plans and growth in the long term. We intend to attract new talents across various industry and profession with local knowledge and know-how by offering competitive performance-based remuneration package. We will also continue to offer relevant vocational training and vertical promotion opportunities to identified talents within our organization for their long term development and growth with us.

Recent Developments

Acquisition of Luyuan Investment Holdings Limited Involving the Issue of Convertible Bonds

On January 13, 2021, we entered into a Sale and Purchase Agreement with Mr. Shum, pursuant to which, we have agreed to acquire, and Mr. Shum has agreed to sell the entire issued share capital in Luyuan Investment Holdings Limited (“Luyuan Investment”) at a consideration of HK\$7,247,560,000, which will be settled by (i) issue of Convertible Bonds; (ii) by way of issue and allotment of shares and (iii) the remaining balance by cash. On February 25, 2021, we entered into a supplemental agreement with Mr. Shum to make certain amendments in the Sale and Purchase Agreement dated January 13, 2021.

Issuance of the January 2021 Notes

On January 21, 2021, we issued the January 2021 Notes in the aggregate principal amount of US\$300,000,000. The January 2021 Notes bear interest at 12.5%. The January 2021 Notes will mature on July 21, 2023.

Repurchase of March 2022 Notes

On February 5, 2021, we repurchased the March 2022 Notes in an aggregate principal amount of US\$55,755,000. On March 11, 2021, we further repurchased the March 2022 Notes in an aggregate principal amount of US\$61,538,000 following the exercise of a put option pursuant to the terms of the March 2022 Notes.

COVID-19 Pandemic

Since early March 2020, the outbreak of COVID-19, a highly infectious novel coronavirus initially detected toward the end of 2019, has started a pandemic. 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 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. As the COVID-19 outbreak has stabilized in the PRC, we have resumed our normal operation. 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 – Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic.”

Our Business Model

We are an established property developer of large-scale residential complex projects and integrated commercial complex projects in the PRC. We typically aim to sell all of the residential properties and commercial properties in our residential complexes, which do not have shopping arcades. In contrast, our integrated commercial complex projects have shopping arcades and a mix of restaurants, retail outlets and other facilities. Typically, we plan to retain control over the central management of our shopping arcades so that we can select our tenants and determine their industry mix. For our integrated commercial complexes, we aim to: (i) sell all of the residential properties and 50% of the commercial properties; and (ii) retain ownership of 50% of the commercial properties for investment purposes.

Our main business operations include: (i) the development and sale of residential and commercial properties; (ii) the provision of development services to government organizations for the development of resettlement properties and development or refurbishment of other types of properties, facilities or infrastructure; and (iii) property investment, which mainly consists of leasing commercial properties owned or developed by us. While we generate revenue from all of these business segments, and despite any revenue mix or any impact such revenue mix may have on our results of operations, development and sale of property and lease of property will remain as the primary arms of our business focus. We will proactively seek and seize opportunities under appropriate market conditions for new development project initiation to facilitate our property sale and lease, whereas we expect our business operations of provision of development services will be relatively passive and will hinge primarily upon government schedule. The properties we developed are quality real estates which usually adopt classical or neo-classical architectural style under a spectrum of European – Chinese theme located in Jiangsu Province, namely Changzhou, Yangzhou, Taizhou and Suqian; and in Nanjing, the provincial city of Jiangsu Province. Our main target customers are generally individuals or families who seek to purchase residential properties that fall within the middle-to-high price range (i.e. customers who seek to purchase residential properties which fall within or which is higher than the market average selling price of residential properties in the locations in Jiangsu Province in which we operate).

Our Business

Overview of our property development projects

We generally develop a mixture of residential and commercial properties under both our residential complex projects and integrated commercial complex projects. Our residential properties include low-rise, multi-storey, mid-rise and high-rise apartments and townhouses. Our commercial properties include, predominantly, shopping arcades, retail stores in commercial pedestrian streets (商業步行街), office properties and car parks. Our residential complexes do not usually have a shopping arcade. Instead, we usually develop commercial pedestrian streets within a residential complex comprising retail stores to cater for the daily needs of our residents. In contrast, each of our integrated commercial complexes is planned to be developed with a shopping arcade that will be housed with a mixture of restaurants, supermarkets, home appliance outlets, cinemas, entertainment facilities, fashion outlets and other retail outlets that sell a variety of merchandise. Each of our shopping arcades is designed to serve the function of a ‘one-stop-shop’ within our integrated commercial complexes. In order to effectively achieve the above, we plan to retain control over central management of our shopping arcades which gives us autonomy in selecting tenants and their industry composition.

It is our business strategy to: (i) sell all of our residential properties developed under residential complex projects and integrated commercial complex projects; (ii) sell all of our commercial properties developed under residential complex projects; and (iii) retain the ownership of approximately 50% of the commercial properties developed in our integrated commercial complex projects for property investment purpose and sell the remainder of the commercial properties to our customers.

Classification of property development projects

We set out below our classification of properties and the classification of properties adopted by the reporting accountants in the accountants’ report:

| <u>Our classification</u> | <u>Reporting accountants</u> |
|--|---|
| <ul style="list-style-type: none"> • Completed properties – we have received completion certificates from the relevant government authorities for these properties | <ul style="list-style-type: none"> • Properties held for sale |
| <ul style="list-style-type: none"> • Properties under development – we have received construction work commencement permits required for these properties, but not the completion certificate | <ul style="list-style-type: none"> • Investment properties • Properties under development |
| <ul style="list-style-type: none"> • Properties held for future development – we have (i) received the land use rights certificate(s); or (ii) signed the relevant land grant contract with the relevant government authorities | <ul style="list-style-type: none"> • Properties under development |

Classification of residential properties

We categorize our residential properties as follows:

- Low-rise apartments (低層住宅) – residential buildings that typically have two to three storeys;
- Multi-storey apartments (多層住宅) – residential buildings that typically have four to six storeys;
- Mid-rise apartments (小高層住宅) – residential buildings that typically have seven to nine storeys;
- High-rise apartments (高層住宅) – residential buildings that typically have 10 storeys or more;
- Townhouses (聯排房屋) – residential houses that are connected to each other and each such house typically has three to four storeys.

Our apartments are constructed with a variety of room types which are designed to suit the different needs of our target customers. We set out below our key apartment types and the intended customers for which they are designed:

| Key apartment types | Intended customers | No of bedrooms |
|---------------------------------|---|-----------------------|
| Studio apartments | married, unmarried or bachelor customers | Not more than one |
| Mid-size apartments. | married or unmarried couples with or without families | Two to four |
| Multi-room apartments | cross-generation families | Five to eight |

Site area and GFA

The site area information set out in this offering memorandum is disclosed on the following basis:

- (i) for project land for which we have obtained land use rights certificates, the site area of a property development project or project phase refers to the aggregate site area in such land use rights certificates;
- (ii) for project land for which we have not obtained land use rights certificates, the site area of a property development project or project phase refers to the aggregate site area recorded in the relevant land grant contracts.

The GFA information in this offering memorandum is disclosed on the following basis:

- (i) total GFA of a property development project or project phase which has been completed or is under development comprises saleable GFA and non-saleable GFA. Non-saleable GFA refers to ancillary facilities that cannot be sold under PRC laws and regulations. Saleable/rentable GFA of a completed property development project or project phase disclosed in this offering memorandum generally refers to the internal floor area of our residential properties and commercial properties, which have been allocated with shared floor area. Saleable/rentable GFA of a property development project or project phase comprises saleable GFA remaining unsold, saleable GFA sold and rentable GFA held for property investment for a completed property development project or project phase and saleable/rentable GFA of a property development project under development;
- (ii) total completed GFA information is based on surveying reports. Where the surveying reports are not available, such information is extracted from the completion certificates;
- (iii) saleable/rentable GFA information which includes saleable GFA remaining unsold and rentable GFA held for property investment of a completed property project or project phase, is based on the relevant surveying reports;
- (iv) the GFA sold of a completed property development project or project phase is based on executed sale contracts or pre-sale contracts;
- (v) total GFA under development of a property development project is based on the relevant construction work planning permits;
- (vi) saleable/rentable GFA information of a property development project under development is based on the relevant pre-sale permits or construction work planning permits if the pre-sale permits are not available or applicable;
- (vii) information on saleable GFA pre-sold of a property development project under development is based on executed pre-sale contracts;

(viii) GFA information on properties held for future development is based on: (a) the relevant construction work planning permits or, if the construction work planning permits are not available, the relevant land use rights certificates for planned GFA; or (b) the relevant land grant contract and our internal records and estimates, which may be subject to change, if we have not obtained the relevant land use rights certificates for the relevant project land.

The names of our property development projects disclosed in this offering memorandum are those which have been or intended to be adopted by us as the actual names of our projects. Some of the names of our property development projects may be different from those registered with government authorities. The English names of our property development projects are for reference only.

Portfolio of our Property Development Projects

The table below is a summary of our land reserves by cities as of December 31, 2020.

| | <u>Total GFA</u> (sq.m.) | <u>Percentage</u> |
|--|-----------------------------|----------------------|
| Hefei | 1,566,267 | 8.9% |
| Shanghai | 170,944 | 1.0% |
| Nanjing | 757,408 | 4.3% |
| Yangzhou | 1,284,568 | 7.3% |
| Taizhou | 1,506,404 | 8.5% |
| Suqian | 1,348,112 | 7.6% |
| Bozhou | 1,115,593 | 6.3% |
| Suzhou/Changzhou/Nantong/Zhenjiang/Yancheng | 1,223,241 | 6.9% |
| Bengbu/Huainan/Ma'anshan/Lu'an | <u>1,154,543</u> | <u>6.6%</u> |
| Yangtze River Delta Region subtotal | 10,127,080 | 57.4% |
| Shenzhen | 310,544 | 1.8% |
| Guangzhou | 177,850 | 1.0% |
| Hong Kong | 48,787 | 0.3% |
| Macao | 60,969 | 0.3% |
| Enping | 1,180,000 | 6.7% |
| Zhuhai/Huizhou | <u>851,688</u> | <u>4.8%</u> |
| Guangdong – Hong Kong – Macao Greater Bay Area subtotal | 2,629,838 | 14.9% |
| Zhengzhou | 455,163 | 2.6% |
| Urumqi | 1,948,426 | 11.0% |
| Guizhou | 1,098,631 | 6.2% |
| Hainan | 85,910 | 0.5% |
| Cambodia | <u>1,308,092</u> | <u>7.4%</u> |
| Other cities subtotal | 4,896,222 | 27.7% |
| Total | <u>17,653,140</u> | <u>100.0%</u> |

Development Services

We provide development services to government organizations for the development of resettlement properties and development or refurbishment of other types of properties, facilities or infrastructure in return for a development services fee. With respect to these development services projects, we are typically responsible for liaising with the construction contractors for the construction of the relevant development project. Occasionally, we are also responsible for liaising with third party design companies to provide planning and design services for the relevant development services projects.

We usually sub-contract all construction works relating to our development services to construction contractors as we do not possess construction capabilities. These construction contractors include construction companies and landscape greening companies. All contractors engaged by us for our development services projects were independent third parties and they generally have had a business relationship with us ranging from three to nine years. We usually conduct an open tender process to

select our construction contractors for the construction of resettlement properties. In contrast, we may engage a particular construction contractor directly for the development or refurbishment of other types of properties, facilities or infrastructure required by our customer following a fee quotation process.

Irrespective of the type of properties required of us under the provision of our development services, we generally sub-contract the construction work by entering into a project-based construction contract with the relevant construction contractor, which has the following salient terms:

- (i) Duration: the construction contract will stipulate the construction period required of the construction contractor, which varies depending on the complexity of the development project.
- (ii) Responsibility of parties: subject to the type of construction required, the construction contract generally stipulates the scope of work of the relevant construction contractor, which typically includes engineering works, primary structural works, installation works and general construction works. The construction contract usually stipulates the applicable quality standard required of the construction contractor.
- (iii) Raw material procurement: the construction contract usually stipulates that the construction contractor is responsible for procuring all raw materials required for the development services project save for those that we have specifically agreed to procure.
- (iv) Construction fee: the amount of construction fee payable to the construction contractor will be incorporated into the construction contract. We usually determine the construction fee with reference to the complexity of the relevant development services project. The construction fee is generally payable according to the stage of construction.
- (v) Termination: the parties are entitled to terminate the construction contract by mutual agreement. In addition, (a) we are entitled to terminate the contract if the construction contractor sub-contracts all or any part of the construction work to a third party without our consent; and (b) the construction contractor is entitled to terminate the construction contract if there is a material delay on our part in paying the construction fee in accordance with the terms of the contract.

Where our scope of work includes the planning and design of the relevant project, we will coordinate with the design companies to provide such service. In this regard, we usually engage a third party design company to provide design service. We generally enter into ad hoc design contracts with the relevant design companies. The key terms of such design contracts usually include, among other things, the scope of design service required, time, quality standard requirements, service fee and payment schedule.

Our participation in resettlement projects is limited to the development of resettlement properties. Save for developing resettlement properties on vacated land, we were not otherwise involved in the land vacating process. We did not at any time enter into any contract or other compensation arrangement with any affected residents who were the subjects of the resettlement.

We enter into service contracts with our customers for the development services we provide. Set out below are the key terms of a typical service contract:

- (i) Duration: the service contract will stipulate the construction period or the completion time for the relevant refurbishment works required of us, which varies depending on the complexity of the development services required.

- (ii) Responsibility of the parties: subject to the development services required, the service contract generally stipulates the scope of work to be provided by us, which typically includes engineering works, primary structural works, installation works, general construction works, road or road improvement works, exterior wall, window and door refurbishment works, landscaping and greening work, and drainage works. The service contract usually stipulates the applicable quality standard required of us.
- (iii) Raw material procurement: the service contract will stipulate that either the government organization or we would be responsible for the costs for procuring raw materials.
- (iv) Development service fee: the amount of estimated development fee payable to us is incorporated in the service contract, subject to final adjudication by the government. We usually determine the development fee with reference to the complexity of the development service required and government guidance price for the relevant works required of us. The development fee is generally payable according to the stage of construction or development service provided.
- (v) Termination: the service contract does not necessarily include a termination clause. Occasionally, a service contract will provide for termination by mutual agreement in writing.

Property Investment

Our investment properties consist of certain self-developed commercial properties that we hold to generate rental income. As of December 31, 2020, our investment properties (excluding car parks) had a total GFA of approximately 887,878 sq.m. For the years ended December 31, 2018, 2019 and 2020, our investment properties (excluding car parks) generated rental income of approximately RMB77.0 million (restated), RMB210.9 million and RMB254.2 million (US\$39.0 million), respectively.

We set out in our policy selection criteria for choosing tenants, such as: (i) its financial viability; (ii) the type of business engaged by the proposed tenant, where applicable, its brand name and reputation, and its compatibility with our development plan; (iii) the proposed business development plan of the tenant. As part of our communal and resident-oriented planning, our tenants include restaurants, supermarket operators, cinemas, fashion brands and home appliance retailers.

We engage an agent, which is an independent third party, to enter into lease agreements with our tenants. The agent is primarily responsible for, subject to our supervision, devising marketing strategies for our lease operations, soliciting reputable tenants, and collecting rent and other fees payable by our tenants for and on our behalf. We leverage the agent's knowledge and expertise in the leasing market and network in Jiangsu Province and engaged the agent in 2008 at the inception of our lease operation when we lacked such experience and expertise. Since then, we have continued to engage that agent on a project-by-project basis.

Since 2008, we believe we have acquired sufficient market knowledge and presence in the Jiangsu rental market. Accordingly, we will take active management of our lease operation, which is in consonance with our development strategy to retain control over the central management of our shopping arcades with a view to selecting reputable tenants and determining industry composition. For this purpose, we have established Jiayuan Commercial Properties (HK), Chongyuan Business Management, Hengyuan Business Management, Taixing Business Management, Yangzhou Business Management, Mingyuan Business Management and Jinyuan Business Management whose principal business activities will include the management of our lease operation.

Our typical lease agreement usually includes the following material terms: (i) the user of the relevant commercial properties, (ii) the term of the lease ranging from two to 15 years (with or without option to renew); (iii) the rent, which is usually payable to us in advance; (iv) applicable rent-free period (which generally ranges from one to two years) at the beginning of the lease; (v) payment

schedule of the rent; and (vi) certain restrictions on the usage of the commercial property such as restrictions on interior design, lighting, and business operation. The provision of rent-free periods effectively reduces the rent payable by the relevant tenant during the term of the lease. We gave relatively long rent-free periods primarily to attract potential tenants. We will review the terms and conditions of the lease from time to time having regard to factors such as the prevailing local rental market conditions and the popularity of our commercial properties in the relevant location. During the years ended December 31, 2018, 2019 and 2020, we did not experience any early termination of our lease agreements within or shortly after the end of the relevant rent-free periods resulting in an impairment loss of rent receivables from our tenants.

We usually determine our rent with reference to the prevailing market conditions. The rent is usually a fixed monthly rate payable by the tenant in advance. In addition, we generally require our tenants to pay a fixed sum as security deposit. Our tenants will bear the utility charges and property management fees. If our tenants breach the relevant lease agreements, we are entitled to deduct or retain security deposits or terminate the relevant lease agreements and take the relevant properties into our possession.

Civil Air Defence Car Parks and Non-Civil Air Defence Car Parks

Civil air defence car parks

We used certain part of the civil air defence facilities as car parks during time of peace. Due to our accounting treatment, our CAD Car Parks are not classified as properties under development or held for sale, investment properties or property, plant and equipment. Accordingly, our CAD Car Parks do not have carrying value.

During the years ended December 31, 2018, 2019 and 2020, we entered into agreements to transfer or lease the right to use CAD Car Parks to our customers. We intend to continue these transfers in the future.

Under the CAD Laws, we are allowed to manage and use the civil air defence facilities we develop during peacetime for profit. As of the date of this offering memorandum, we had transferred and/or leased the right to use CAD Car Parks constructed in certain property development projects. We have obtained CAD Utilization Permits or written and oral confirmation in respect to our transfer and/or lease of the right to use CAD Car Parks from relevant governmental authorities for these projects. Please see “Risk factors – Risks relating to our business – We may be required to provide refunds to our customers or be subject to adverse legal consequences if we fail to obtain the relevant CAD Utilization Permits or otherwise maintain the validity of the CAD Utilization Permits or government confirmations which have been granted or provided to us” for further details.

Save for the above transfer and/or lease of the right to use the CAD Car Parks, we have not transferred and/or leased other CAD Car Parks developed, under development or planned to be developed by us as of the date of this offering memorandum. Accordingly, as of the date of this offering memorandum, we were not in breach of any applicable CAD laws and regulations with respect to those CAD Car Parks that we did not transfer or lease the usage right. Further, there was no dispute between ourselves and our customers regarding the lease or transfer of the rights to use such CAD Car Parks as of the date of this offering memorandum.

Please see “Risk factors – Risks relating to our business – We may be required to provide refunds to our customers or be subject to adverse legal consequences if we fail to obtain the relevant CAD Utilisation Permits or otherwise maintain the validity of the CAD Utilisation Permits or government confirmations which have been granted or provided to us” for further details.

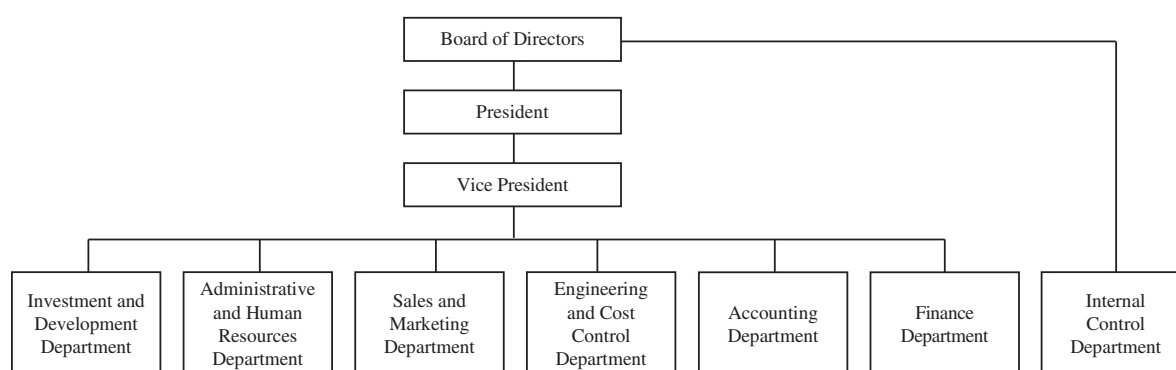
Non-civil air defence car parks

During the years ended December 31, 2018, 2019 and 2020, we entered into agreements to lease the right to use non-civil air defence car parks. Save as disclosed in this offering memorandum, we have obtained all the construction works planning permits and construction works commencement permits for the non-civil air defence car parks. Pursuant to the Interpretation of the Supreme Peoples' Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes Over Lease Contracts on Urban Buildings (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋), the lease contracts with respect to those construction works sites which have not obtained construction works planning permits or have not been built in compliance with the construction works planning permits shall be invalid. However, such lease contracts shall be deemed by the People's Court to be valid if the construction planning permit has been obtained or if the construction has been approved by the competent authority before the closing of trial in the court of first instance.

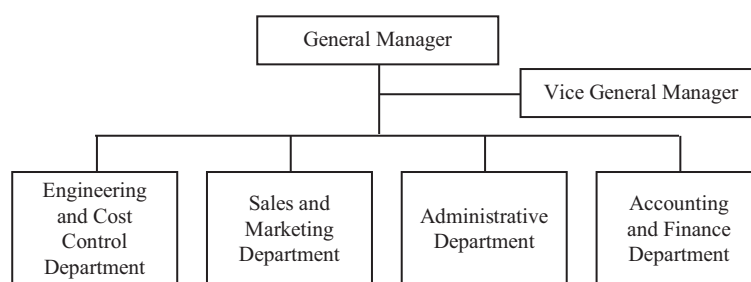
Our Management and Organizational Structure

The following chart demonstrates our management and organizational structure as of December 31, 2020:

(i) Headquarters



(ii) Project Companies



We have adopted a two-tier management and organizational structure with our headquarters as the first tier and regional project companies as the second tier. We believe that our operational efficiency is mainly attributable to the demarcation of roles and functions between our headquarters and regional project companies. Our headquarters is generally responsible for, among other things, making strategic decisions, formulating business development plans and policies for our Group, overseeing project development progress, establishing sales target and carrying out monitory and supervisory functions. Our regional project companies are committed to implementing the policies formulated by our headquarters, and are responsible for carrying out our daily operations such as executing project development plans, monitoring construction schedule, carrying out quality control inspections, executing sales and lease operations. With respect to property development project management, each of our project managers from the relevant regional project company will be responsible for the overall

development progress of a particular property development project. A project manager is usually assisted by a team of personnel comprising a project engineering manager, a project design manager, a project cost control manager and other assistants.

We have established a systematic reporting, internal approval and communication channel which aims to facilitate a constructive flow of directives and swift transmission of information. Our regional project companies report to our headquarters regularly. We believe that an effective communication channel contributes to our operational efficiency which allows us to gauge business opportunities and to react speedily in the dynamic property market.

Our Key Property Development Process

Site selection

We undertake a critical site selection process which requires the cooperation between our headquarters and regional project companies. The process involves: (i) setting annual development strategy; (ii) collecting and conducting analysis of site, demographic, economic and other relevant data, identification of potential project sites; (iii) conducting feasibility studies by ourselves or third parties we engage and (iv) reviewing assessment and recommendation by site selection committee and determination by our headquarters.

Based on the project type, our strategic investment department will identify available land plots and collect relevant data with a view to allow our senior management to make informed decisions. We will then analyse the data ourselves or commission a professional advisor to conduct a feasibility study for the potential property development project and perform multi-faceted assessment on the prospect, profitability, and financial and operational feasibility of the potential property development project. Based on the above, our headquarters will then make a determination on the project site.

We usually consider the following major criteria in determining the relevant city and site for our property development, including: (i) geographical size of the relevant city and district or county, (ii) size of population and its composition, (iii) GDP of the relevant city and per capita, and growth rate; (iv) government zoning and development policies; (v) accessibility, transportation, and infrastructural development; and (vi) historical and projected condition of the local property market.

Under this selection process and adhering to our sound and stable development strategies of “be delicate, be detailed oriented, offer good quality and maintain strong market position”, our residential complex projects are situated at locations which we consider to be of moderate to high economic growth potential supported by readily available infrastructure, public facilities and amenities, and transportation system. In contrast, our integrated commercial complex projects are located in key towns which are expected to be developed into major economic and transportation hubs among neighbouring towns, the level of development of commercial infrastructure of which is relatively immature. We believe that our profitability can be optimized under this approach.

We appreciate the importance of education to our target customers who are parents. In order to establish a niche for our property development projects in this regard, we aim to choose a project site which is located in an established school network or participate in the construction of government schools which are located adjacent to or within our property development projects. Since our inception, we have been participating in the development of five schools. As a socially responsible corporate entity, we plan to continue our participation in school construction for our customers and the community at large. Further, we believe that the appeal and perceived value of our property projects that are located within an established school network can be immensely increased.

Land acquisition

We usually acquire land in (i) the primary market through bidding in public auction, listing-for-sale process in compliance with the 2007 Regulations implemented by the MLR on May 9, 2002 and revised on September 28, 2007 (the “2007 Regulations”), which took effect on November 1, 2007; or (ii) in the secondary market through an acquisition of equity or shareholding interest in a company which holds the relevant project land.

We acquired a part of our project lands in the primary market through bidding in public auction, listing-for-sale process in accordance with the 2007 Regulations. Under the 2007 Regulations, a land parcel which is to be used for, among other things, commercial or commodity residential purposes or where there are two or more intended users for the land parcel, must be granted through tender, auction, or listing-for-sale process. As a successful bidder of our project lands, we entered into land grant contracts with the relevant government authorities for all our projects as of December 31, 2020. Please see “Regulatory Overview” and “– Details of our property development projects” for further details.

We may from time to time issue debt or equity securities, or a combination thereof, to finance our acquisitions or investments or for general corporate purposes. On October 22, 2018, we issued our US\$225 million 12.00% senior secured notes due 2020. On November 9, 2018, we issued our US\$70 million 12.00% senior secured notes due 2020 (which was consolidated with and formed a single series with the US\$225 million 12.00% senior secured notes due 2020 issued on October 22, 2018). On December 6, 2018, we issued our US\$80 million 12.00% senior notes due 2020 (which was consolidated with and formed a single series with the US\$225 million 12.00% senior secured notes due 2020 issued on October 22, 2018 and the US\$70 million 12.00% senior secured notes due 2020 issued on November 9, 2018). On December 20, 2018, we issued our US\$25 million 12.00% senior secured notes due 2020 (which was consolidated with and formed a single series with the US\$225 million 12.00% senior secured notes due 2020 issued on October 22, 2018, the US\$70 million 12.00% senior secured notes due 2020 issued on November 9, 2018 and the US\$80 million 12.00% senior secured notes due 2020 issued on December 6, 2018). On May 2, 2019, we issued our US\$225,000,000 11.375% senior secured notes due 2022, a portion of which was used to exchange all of our US\$160,000,000 10.0% senior secured notes due 2019. On July 11, 2019, we issued US\$225,000,000 13.75% senior secured notes due 2022. On October 18, 2019, December 3, 2019, January 21, 2020 and February 6, 2020, we issued US\$327,500,000 13.75% senior notes due 2023. On June 24, 2020 and July 21, 2020, we issued US\$150,000,000 11.75% senior notes due 2021. On October 8, 2020 and November 12, 2020, we issued US\$300,000,000 12.5% senior notes due 2023. On October 30, 2020, we issued US\$200,000,000 12.0% senior notes due 2022, a portion of which was used to repurchase part of the March 2022 Notes and May 2022 Notes. On January 21, 2021, we issued US\$300,000,000 12.5% senior notes due 2023, a portion of which was used to exchange part of our March 2022 Notes.

Project design and planning

We have put in place a four-stage planning and design process, involving conceptual planning, construction planning, final planning and review and approval of construction drawings. We usually set out our cost and time requirements, as well as statutory and government requirements in our contracts with the design companies engaged by us, pursuant to which the relevant design plans are prepared. Our sales and marketing department will also provide inputs on commercial planning, such as intended tenant and industry mix, for our integrated commercial complex projects. The relevant design companies engaged by us will then prepare the relevant designs and drawings according to our requirements.

We strive to develop real estates that are appealing to our target customers. To this end, we are aspired to develop high quality real estates which usually adopt classical or neo-classical architectural style under a spectrum of European or Chinese themes. Our products endeavour to create a luxurious lifestyle and hospitable living environment for our customers and we believe that the architectural design and planning adopted by us will instill a sense of pride amongst our customers in owning or investing in our properties.

In order to maintain our competitiveness in the property market, we recognize the need to remain innovative in our product design. In this regard, while the majority of our property development projects is European themed, our Zijin Mansion will be developed into a Chinese themed residential complex with traditional Chinese themed garden incorporating various pavilions and a four-storey pagoda constructed at its centre. In order to enhance the appeal of our products, we usually apportion a sizeable portion of site area for the construction of scenic gardens and/or squares for the enjoyment of our residents. For instance, our Zijin Mansion will feature various scenic spots including a Chinese styled artificial lake and various pavilions. We envision that these gardens and squares will not only enhance the comfort of our customers, they also provide visual appeal to owners and target customers.

We believe that our innovative design distinguishes us from our competitors. One of the featured designs that has been infused in some of our property development projects materializes a significant segregation of vehicles from pedestrians. In order to maximize surface leisure areas for our residents, some of our complexes have been or will be developed with car entrances that direct all incoming vehicles to an extensive underground travelling area. Our underground travelling area is accessible to the residential buildings and their respective car parks within the relevant complex. We believe that this featured design is not only environmental friendly for the pedestrians, it also adds an additional level of comfort to our customers.

It is our objective to develop resident-oriented complexes. In this regard, each of our property development projects has been or will be developed into a communal style complex, which is designed to provide a high level of convenience and enjoyment to our customers by bringing entertainment facilities, restaurants, shopping arcades, schools, gardens and other amenities and facilities in close proximity to the residential area. In order to achieve this, it is our intention to develop commercial pedestrian streets (商業步行街) and/or shopping arcades to cater to the daily needs of our residential customers. It is also our plan to retain control over the overall management of our shopping arcades in integrated commercial complexes which enables us to select tenants and their industry composition. Under our management, we are aspired to provide a “one-stop-shop” shopping experience to our customers and surrounding local residents.

We engage the service of design companies for generating our project designs and construction drawings. Save for Jiaying City Boyuan Architecture Design Co., Ltd (嘉興市博源建築設計有限公司), formerly known as Zhejiang Jia Yuan Construction Design Limited (浙江佳源建築設計有限公司), which is a connected person, all of the design companies engaged by us were independent third parties. We usually select a design company following an assessment of its reputation, track record, performance, experience and engagement costs. Our contracts with the design companies usually stipulate the scope of design service required, our time and quality standard requirements, service fee and payment schedule. In this regard, a design company usually charges us a service fee with reference to the GFA of a project, which is typically payable at various development milestones of a project.

Construction and quality control

Construction

We outsource all construction work of our property development projects to construction contractors. We usually conduct an open tender process to select our construction contractors. In this regard, we usually engage the service of a tender agent to organize the open tender process which includes preparing the relevant tender documents and relevant tender invitations, receiving and reviewing bidding documents from bidding participants based on a set of criteria determined by us, and reporting to us the status of the open tender process. We usually enter into a legally-binding agency contract with an independent third-party tender agent on a project-by-project basis. Under the terms of a typical agency contract, we will pay a tender agent either a fixed service fee or such service fee that is calculated with reference to: (i) the planned GFA of a project; or (ii) the contract sum of the winning construction contractor.

The criteria for selecting a construction contractor is set out in the tender documents, which include: (i) the qualification of the construction contractor; (ii) its construction track record; (iii) the historic occurrence of safety incidents; (iv) the construction fee; (v) any history of previous cooperation; and (vi) the awards it has received and its reputation. We will enter into a legally-binding project-based construction agreement, either with respect to the whole property development project or certain phase thereof, with the winning contractor which incorporates the terms set out in the tender documents and the bidding documents submitted by the relevant construction contractor. The main terms and conditions of a construction contract include: (i) the duration of construction which varies according to the complexity of a particular project; (ii) the scope of construction work; (iii) the parties' responsibilities for acquiring raw materials; (iv) the payment terms; and (v) the limitations on sub-contracting construction work. We usually do not allow our construction contractors to subcontract any part of the construction work unless otherwise approved or agreed by us. Further, we usually hold the construction contractor responsible for the actions and performance of the sub-contractor.

The scope of construction work carried out by a construction contractor is usually included in the construction contract and generally includes civil engineering works, foundation works, primary structural works, installation works, and general construction works. The relevant construction contractor is generally contractually responsible for purchasing substantially all major construction materials, such as steel and cement, other than any raw materials that we have specified as would be purchased by us, such as ceramic tiles, doors, intercom equipment, and elevators. The construction contractor will usually bear the acquisition costs of those raw materials procured by them while we will bear the costs of any raw materials procured by us.

We usually agree to pay the construction contractor according to the stage of construction under the construction agreement. While the percentage of construction fee payable to the construction contractor varies in different projects, under a typical development project, we would have paid approximately 70% to 80% of the construction fee when the construction work of the relevant building(s) is completed pending completion inspection; approximately 85% to 90% of the construction fee upon satisfactory completion inspection; and approximately 95% to 97% of the construction fee at the time of settlement. We retain 3% to 5% of the construction fee as quality assurance deposit which is usually payable to the construction contractor within a period of five years.

The construction contract is usually terminable by mutual agreement. In addition, we are entitled to terminate if the construction contractor sub-contracts all or any part of the construction work to a third party without our consent. Occasionally, the construction contract will allow the construction contractor to terminate the construction contract if there is a material delay on our part in paying the construction fee in accordance with the terms of the contract.

All our construction contractors are independent third parties. During the years ended December 31, 2018, 2019 and 2020, we did not have any material disputes with our construction contractors or agents.

Quality control

The quality standards adopted by us in our project development are compliant with the applicable PRC legal requirements. A construction contractor is contractually obliged to provide regular reports on the progress of the construction period and relevant forecast. The quality control team of each of our regional project companies, comprising a project engineering manager, engineers and other personnel is responsible for monitoring the development progress, the quality of construction work and construction material used.

We also engage third party certified construction supervision companies as supervisors to assist us in our quality control effort. We generally engage a third party agent to organize an open tender process for selecting a third party supervisor. The criteria used for selecting the third party supervisor include (i) the qualification of the third party supervisor; (ii) the composition and experience of the supervisory team; (iii) any history of previous cooperation; and (iv) the supervisory fee.

We convene regular conferences with the construction contractor and third party supervisor to review the development progress and follow-up issues for each property development project. The construction contractor will be required to carry out rectification work on any sub-standard construction work until a satisfactory standard is achieved. Further, it is usually stipulated in our construction contract that the raw materials used by the construction contractor must conform to the standards and specifications determined by us. Any use of sub-standard raw materials by the construction contractor is susceptible to rectification work to be conducted by the relevant contractor at its own expense. If the construction contractor fails to remedy any default identified by us within a stipulated period, we are entitled to monetary compensation and/or termination of agreement. Further, a construction contractor is usually required to indemnify us for any loss suffered by us as a result of any breach of the construction contract.

Sales and marketing

Formulating sales strategy and determining sale price

Our sales and marketing department at our headquarters and regional project companies are responsible for formulating sales strategy and determining property sale price. Generally speaking, when we conduct our feasibility studies at the beginning of the property development project, we have already collected and analysed the relevant demographic and economic data of the relevant site location, estimated our development costs and have, accordingly, determined the customers targeted for our property development. Based on these information, we will determine the sale price for properties developed by us. Our sales and marketing department will formulate sales strategy such as incentive measures to promote sales. We may, at our own discretion, give discount to our customers for sale promotion purposes.

Our property sale price is generally determined with reference to (i) our land acquisition and construction costs, (ii) sale price of our competitors for developments of similar scale and quality in the proximity, (iii) type of property, (iv) location of the relevant property and (v) market conditions.

Advertisement and promotional activities

We believe that it is the most effective sales strategy to showcase our products and allow our potential customers to experience and visit our products with a view to creating a lasting impression on our quality. Accordingly, it is our strategy to prioritize the development of our projects' sales exhibition zone, which is usually developed with decorated residential properties of various room types, and actual gardens and/or squares.

In April 2015, we entered into a cooperation agreement with a real estate agent for the purpose of promoting sales of properties developed under our Venice Metropolis. Under the cooperation agreement, the real estate agent agreed to procure an agreed number of potential customers to visit our project premises at the commencement of pre-sale and to attend our promotional activities. The real estate agent will also organize tours to the project premises. Customers who purchase our properties during the tour may enjoy certain promotional discount. Pursuant to the cooperation agreement the real estate agent will receive a fixed fee from the customers for each property purchased by them during the tour.

In 2015, we have put in place a promotional scheme that encourages our customers to refer potential customers to purchase properties developed by us. Under this promotion scheme, we will, among other things, offer monetary reward to both the referrer and new customer for each successful transaction.

In addition, our advertisement and promotional activities include media and billboard advertisements. We also regularly hold promotional activities on our complex premises to promote our products. We plan to organize, sponsor and participate in large-scale press conference and exhibitions to enhance the recognition of our “Jia Yuan” brand.

Sales

We sell our properties through our own regional sales team and/or sales agents which we engage on an exclusive or non-exclusive basis. We enter into an agency agreement with the relevant sales agent which sets out the terms of engagement, which usually include: (i) the details of the relevant project and the portion thereof for which the sales agent is required to provide sales services; (ii) the mechanism of determining the benchmark sale price; (iii) the commission payable to the sales agent and settlement mechanism; and (iv) the duration of the agency agreement.

The agent’s commission amount, which is usually calculated with reference to the sale price and the commission rates, may vary between different projects and different agents. Nonetheless, under a typical agency agreement, the sales commission is usually payable by us in arrears on a monthly basis. Further, we are entitled to set monthly sales target for the sales agent. Where the sales agent fails to achieve the monthly sales target set out in the agency agreement, we are entitled to withhold payment of the sales commission until such monthly sales target is reached. We are also entitled, under a typical agency agreement, to terminate the service of a particular agent, if that agent fails to meet our sales target for two consecutive months.

According to the relevant PRC laws, the pre-sale of commodity properties prior to the completion of its construction is subject to registration and approval requirements. A property development is only allowed to engage in pre-sale activities if: (i) the relevant land premium has been fully paid and the developer has obtained the relevant land use rights certificate(s); (ii) a construction works planning permit and construction works commencement permit have been obtained; (iii) the amount invested in the construction of the project represents 25% or more of the total investment costs of the property development project, and the progress of construction work, completion and delivery dates have been ascertained; and (iv) the pre-sale proposal has been registered and a pre-sale permit has been obtained by the property developer. We have obtained all necessary permits for our pre-sale transactions.

We enter into temporary and formal sale/pre-sale contracts with our end-customers directly. Our formal sale contract usually stipulates: (i) the instalments of the purchase price payable by the customer under an agreed schedule; (ii) the additional amount payable by the customer or the mechanism for terminating the agreement in the event of delay or default in payment; and (iii) in respect of a pre-sale transaction, the delivery date and delivery procedure. Under normal circumstances, we usually receive full amount of the purchase price at or before delivery of the relevant property. We provide quality assurance to our customers in accordance with and for a period not shorter than that stipulated under the relevant PRC laws.

We have arrangements with certain banks where we will provide guarantees to banks for any mortgage loans taken out by our customers to purchase our properties. Typically, these guarantees terminate when the customer obtains the building ownership certificate and the mortgage registration for the relevant property is completed. The duration of our guarantees vary on a case-by-case basis subject to, among other things, the time at which our customers obtain the relevant mortgage loans. Since: (i) the delivery of properties to our customers generally takes place within two years from the date of the relevant sales contract; and (ii) it is our policy to assist our customers with obtaining the relevant building ownership certificates within six months from, among other things, the date of delivery of the relevant properties, the duration of our guarantees are generally within two and a half years from the date of the relevant sales contract. The guaranteed amount is limited to the mortgage loan amount and is payable by us in the event that the customer defaults in repaying the mortgage loan. Consistent with industry practice, we do not conduct independent credit evaluations on our customers but rely on the credit checks conducted by the mortgagee banks. During the years ended December 31, 2018, 2019 and

2020, we provided guarantees of approximately RMB11,269.9 million (restated) and RMB13,289.6 million and RMB10,766.3 million (US\$1,651.5 million), respectively. During the years ended December 31, 2018, 2019 and 2020, there was no incident of default.

Delivery and after-sales service

We are required to deliver a completed property in accordance with the terms of the formal agreement entered into with a customer. At the time of delivery, we are required by the relevant PRC laws to pass to the customer, a user manual and completion certificate issued by the relevant authorities evidencing the satisfactory results in the completion acceptance inspection. Pursuant to a typical formal sale agreement, we will provide written notice to a customer informing the delivery date and other relevant details. A customer will generally be deemed to have accepted all the risks associated with delivery and all the expenses incurred thereafter after 30 days from the date of our delivery notice.

We strive to punctually deliver the relevant properties, as any failure to do so, may render us liable for payment of compensation and/or may entitle the customer to terminate the agreement at our expense resulting in a full refund of all amounts paid by the customer. Pursuant to a typical sale/pre-sale contract entered into between ourselves and our customers, if we fail to deliver the relevant property for a period not exceeding 90 days, we are required to pay compensation to our customer at a daily rate of 0.0015% of the sale price paid by the customer for each day of delay. If we fail to deliver the relevant property for a period exceeding 90 days, the customer is entitled to terminate the sale/pre-sale contract, and we are required to: (i) refund all sale price paid by the customer within 15 days following our receipt of the termination notice; and (ii) pay compensation to the customer at a daily rate of 0.015% of the sale price paid by the customer for each day of the delay up to the day on which refund of the sale price mentioned in (i) above is made in full. Where a customer elects not to terminate the sale/pre-sale contract, we are still required to pay compensation to the customer at a daily rate of 0.015% of the sale price paid by the customer for each day of the delay up to the day on which we have received the completion certificate.

We experienced delays in delivering properties to our customers for Suqian Park Number One (宿遷公園一號), Venice Metropolis (威尼斯城) and Elite International Garden (名人國際花園) during the year ended December 31, 2016, mainly due to delays in the construction process. In response, we have revised our internal policy and guidelines to set out timelines for each major milestone for various types of projects. The enhanced internal control measures require our engineering and cost control department at the subsidiary level, which is responsible for monitoring construction time and quality, to adhere to such timeline. Our headquarters is entitled to give directives to the project company on the execution of a particular project, and the general manager of each project company shall assess the construction status of a project and report to the headquarters on a monthly basis. If there occurs any delay or potential delay to the permissible timeline, the project company must account for such a delay and the revised timeline must be approved by our headquarters before its execution. During the years ended December 31, 2018, 2019 and 2020, we paid approximately nil, nil and nil, respectively, due to delays in delivering properties to customers. Please see “Risk factors – Risks relating to our business – We may not be able to complete or deliver our property development projects on time and we may be subject to liabilities as a result of such delays”.

Our after-sales service primarily includes offering assistance to our customers in obtaining ownership certificates and handling customers’ complaints.

Product Returns and Warranty

We carry out inspection and quality checks on our properties before delivery. During the years ended December 31, 2018, 2019 and 2020, we did not experience any returns of our properties due to quality defects.

We provide our customers with a warranty for the quality of the structure of the building pursuant to the Measures on the Sales of Commodity Housing (商品房銷售管理辦法) and Regulations for the Operations of Urban Property Development (城市房地產開發經營管理條例). We provide different warranty and maintenance periods to our property purchasers in respect of different parts of the construction projects of the building according to the Implementation Regulation of Residence Quality Guarantee and Residence Manual System on Commercial Housing (商品住宅實行住宅質量保證書和住宅使用說明書制度的規定) or Measures on the Warranty and Maintenance of Building Construction Projects (房屋建築工程質量保修辦法).

In general, we provide a five-year warranty in respect of water leakage due to external walls and a one-year warranty in respect of the quality and conditions of most parts of the residential property unit. For the foundation and structure of the commodity property, we will provide warranty for such period as required by the relevant PRC laws and regulations.

Property Management Services

We typically engage professional property management companies to provide pre-delivery property management service prior to the establishment of an owners' committee of the relevant building developed by us in accordance with the relevant PRC property management laws and regulations. In this regard, we typically enter into a pre-delivery property management service contract with the relevant property management companies for the provision of services such as property maintenance, site security, gardening, cleaning and other ancillary services. The management fee is determined with reference to the prevailing market rates, guidance rate set by the relevant government authorities, and the GFA of each property of the relevant property development project. The management fee is usually settled on a monthly, quarterly or yearly basis. Following delivery of the relevant property, property owners are responsible for the payment of their own management fee, while we are responsible for payment of management fees for properties that are completed but not yet sold or delivered.

The pre-delivery property management service contract will remain in effect after delivery of properties to our customers. However, under the relevant PRC laws and regulations, half of the property owners which own properties accounting for more than half of the non-communal GFA in a property development have the right to engage or dismiss a property management company. In the event that the property owners dismiss the existing property management company, the owners' committee will enter into a new property management service contract with the property management company chosen by the majority property owners.

On January 21, 2019, we completed the acquisition of the entire equity interest in Chuangyuan Group, which is engaged in the property management business in the PRC. Property management became a new operating segment of our Group in the first half of 2019.

Chuangyuan Holdings wholly owns five property management companies in the PRC. The property management companies primarily provide: (a) property management services, such as security, repair and maintenance, cleaning and garden landscape maintenance, to property owners of residential communities and commercial properties; and (b) pre-delivery property management services, including on-site security, cleaning, greening and gardening, customer services and other ancillary services, to property developers prior to the establishment of an owners' committee. As of June 30, 2020, there was a total of 177 managed properties, covering residential properties, commercial offices and urban complexes, including 148 residential communities, 25 commercial properties and 4 other properties, with a total contracted GFA under management of more than 49,660,000 sq.m. These properties were located mainly in provinces including Zhejiang, Jiangsu and Anhui. Other than these five property management companies, all the property management companies that we engage for pre-delivery property management services are independent third parties. We believe that this acquisition is in line with our development strategy and leads to a more comprehensive coverage of our business value chain. In

addition, this acquisition further diversifies our income sources and expand our business scale. The acquisition was completed on January 21, 2019 and Chuangyuan Holdings has become our wholly owned subsidiary.

On December 9, 2020, Jiayuan Services successfully listed on the Main Board of the Hong Kong Stock Exchange. Jiayuan Services and its subsidiaries are principally engaged in the provision of property management services, value-added services to property developers and community value-added services in the PRC.

Project Financing

Our main sources of funding for our property development projects include: (i) proceeds from pre-sales and sales of our properties; (ii) bank borrowings; and (iii) financing from trust companies and asset management companies. As of December 31, 2020, our outstanding bank and other borrowings amounted to approximately RMB12,632.6 million (US\$1,936.0 million).

Trust financing is an authorized form of financing in the PRC and usually refers to financing from trust funds established and managed by trustees, which are trust companies registered with the CBRC. These trust financing arrangements can take the form of equity financing or debt financing, and are invested by qualified investors who meet the criteria set out in the Measures for the Administration of Trust Companies' Trust Plans of Assembled Funds (信托公司集合資金信托計劃管理辦法) issued by CBRC on February 4, 2009 as amended from time to time. Borrowers' liabilities under trust financing can be secured by different forms of security including equity pledges, guarantees, and land mortgages.

According to the Measures on Administration of Trust Companies (信托公司管理辦法), the Administrative Measures for Pooled Fund Trust Plans of Trust Companies (信托公司集合資金信托計劃管理辦法), and the Administrative Measures for Net Capital of Trust Companies (信托公司淨資本管理辦法) which took effect on March 1, 2007, February 4, 2009, and August 24, 2010, respectively, a "trust company" is a financial institution established in the PRC, which has a minimum registered capital of RMB300.0 million or equivalent value in another currency, that carries out trust business in China. A "trust business" refers to business operations undertaken by a trustee under the fiduciary capacity of that office.

According to the Notice on Strengthening the Supervision of Trust Companies' Real Estate Business (關於加強信托公司房地產業務監管有關問題的通知) implemented by the General Office of CBRC on February 11, 2010 (the "Supervision Notice"), the following conditions must be satisfied before a trust company may finance a property development: (i) the property developer has obtained a development qualification of class two or above as evidenced by the Qualification Certificate for Real Property Development Enterprise (房地產開發企業資質證書); (ii) the property developer has invested such amount by deploying its own capital in compliance with the relevant requirements set by the relevant government authorities; and (iii) the property developer has obtained the relevant land use rights certificates, construction land planning permits, construction work planning permits and construction work commencement permits.

According to the Notice on Risk Alert for Trust Companies' Real Estate Business (關於信託公司房地產信託業務風險提示的通知) issued by the CBRC on November 12, 2010, all trust companies are required to review each of its property development related trust financing transactions for regulatory compliance and risk exposure. These include a review of compliance with the Supervision Notice. In the event of non-compliance, the relevant banking regulatory bureau may require the trust company to rectify and/or penalize the non-compliance in accordance with applicable rules and regulations.

As of December 31, 2020, we had seven outstanding secured financing arrangements with an aggregate total outstanding amount of approximately RMB4,661.7 million (US\$714.4 million) from trust companies. As of December 31, 2020, we had not been informed by trust companies or asset management companies of any instance where the CBIRC had required rectification of their trust financing arrangements with us.

Suppliers

For the years ended December 31, 2018, 2019 and 2020, our five largest suppliers, which included construction contractors, electricity works supply contractors and landscaping and greening works contractors, were less than 30% of the total purchases of the Group. All of our five largest suppliers during the years ended December 31, 2018, 2019 and 2020 were independent third parties. The length of our business relationships with our five largest suppliers range from one year to ten years.

Procurement

We usually stipulate the standards, specifications and, for particular items, the specific brands of raw materials that we require our construction contractors to procure for our property development projects. Our construction contractors are usually required to seek our approval before either procuring or using the relevant raw materials. Unless otherwise agreed, the construction contractor will bear the procurement costs of such raw materials provided, in respect of major construction materials, if such costs are only subject to immaterial fluctuation. Where the rate of fluctuation of the costs of such materials exceeds an agreed threshold that ranges from 5% to 10% depending on the material, we would bear the costs that exceeds the fluctuation threshold. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Description of selected components of consolidated income statement and consolidated statement of comprehensive income – Cost of sales” for further details about the potential impact on our performance in the event of any significant fluctuation of our major cost of sales.

If our construction contractor has procured substandard or unapproved raw materials, we are entitled to either require such construction contractor to return such substandard raw materials before they have been used or conduct rectification work with the approved raw materials at its own expense. A construction contractor that uses substandard or unapproved raw materials is liable to compensate us for any loss suffered by us as a result thereof.

We may procure specific raw materials required for our property development projects in the PRC, such as ceramic tiles, doors, intercommunication equipment and elevators on our own initiative. Our regional project company is responsible for selecting the relevant suppliers. We usually select our suppliers based on, among other things, (i) the quality of their raw materials and/or services; (ii) the punctuality of product delivery and (iii) the product price. We usually enter into ad hoc supplies agreement with a supplier for the procurement of a particular item which typically sets out, among other things, the raw material required, the relevant specification, delivery date(s), product price, payment schedule, and warranty period, as applicable. Generally speaking, the relevant supplies contract would entitle us to return any defective product at the expense of the supplier. We generally do not enter into any long-term supply contract with our suppliers. During the years ended December 31, 2018, 2019 and 2020, we did not experience any shortage or delay in the supply of raw materials. We believe that the raw materials purchased by us, such as ceramic tiles, doors, intercommunication equipment and elevators, are usually not subject to any material cost fluctuation.

Customers

For the years ended December 31, 2018, 2019 and 2020, our five largest customers included purchasers of our residential properties and/or commercial properties, who are individuals and corporate entities, and tenants of our commercial properties. For the years ended December 31, 2018, 2019 and 2020, the revenue generated by these five largest customers were less than 30% of the total revenue.

Competition

The Jiangsu property market and, generally, the PRC property market is highly fragmented and competitive. We primarily compete with national, regional and local property developers which have established their presence in cities where we have operations and where we intend to expand into, and to a lesser extent, international property developers which have entered the PRC property market. We compete over a range of areas, including but not limited to brand recognition, financial resources, pricing, size and location of land reserves and design and quality of our products. Many of our competitors, which are national or international property developers may have greater financial and capital resources and a larger scale of operation than us. Further, regional or local property developers who are our competitors may enjoy a higher degree of brand recognition, extensive market knowledge of the local property market, and established business relationship than we do.

The real estate market in the southern part of Jiangsu Province is highly competitive and market players in this area include companies which are listed on the Hong Kong Stock Exchange. The established reputation of these developers poses a high entry barrier in the southern part of Jiangsu Province. As for the northern part of Jiangsu Province, the real estate market has been booming in recent years along with the national real estate market. Nonetheless, economic development in the northern part of Jiangsu Province still lags behind that in the south. Average property prices in the northern part of Jiangsu Province are lower than those in the south. The market capacity of the northern part of Jiangsu Province is also smaller. A relatively small market capacity is the main barrier for new property developers to enter into the real estate market in the northern part of Jiangsu Province.

Despite the above competitive landscape, we believe that the PRC property market has potential for growth. We believe that, with our property development experience, level of brand recognition, product quality, established operation system and our management's thorough understanding of the market based on their previous first-hand experience in various fields and our strength, we will be in a position to react promptly and effectively in the PRC property market. We cannot assure you that we will be able to maintain our competitiveness effectively in our industry. Please see "Risk factors – Risks relating to our industry – Intensified competition may materially and adversely affect our business, results of operations and financial condition" for further details.

Risk Management

We believe that risk management is crucial to the success of any property developer in the PRC. Some of the risks we face include changes in the political and economic conditions of the PRC, changes in regulations and policies implemented by the PRC Government with respect to the PRC property market, uncertainty over availability of financing and suitable land sites for future development. Please see "Risk Factors" for further details on risks and uncertainties faced by our Group. For further details on the financial risks we face, please see "Management's discussion and analysis of financial condition and results of operation – Quantitative and qualitative analysis of market risk".

In order to meet these challenges, we have established the following structures and measures to manage our risks:

- our Board is responsible for determining business and investment plans, preparing budgets and financial reports and is in charge of the overall risk control of our Group. Our Board conducts a thorough examination of any material risks associated with any business decision before making or approving a certain business decision. Please see "Directors and Management" for details about the qualifications of our Board members.
- our senior management team is responsible for monitoring daily operations and any associated operational risks of our Group. The team is also responsible for analysing and approving business decisions relating to our development projects and other aspects of our

daily operations. In particular, project companies are arranged in such a way that each project company has a clear reporting line to facilitate efficient communication between the headquarters and our project companies.

- our internal control department is responsible for ensuring our regulatory and contractual compliance. Our internal control department is responsible for formulating policies or proposing arrangements and changes within our Group to ensure compliance with the relevant regulations or contractual obligations. The internal control department is responsible for also keeping tracks of and maintains compliance records of our Group.
- our city and site selection decisions are made by our headquarters. Our headquarters is tasked with setting annual development plan and the assessment of regions and cities in the PRC for potential development, and determination of site selection decision. Our project manager will report to headquarters on the results of any feasibility studies conducted us.
- we have adopted various internal policies and procedures for various aspects of our operations. We provide trainings to our employees in order to enhance their knowledge of our corporate culture, with a view to manage our operational and market risks.

Intellectual Property Rights

We have registered with the PRC Trademark Office our trademarks under various categories, and have applied to “Jia Yuan 佳源,” “佳源.” We have registered “香港佳源”, “佳源國際” trademarks in Hong Kong.

As of the date of this offering memorandum, we were not aware of any pending claims by any third party against us for the use of our intellectual property rights. As of the date of this offering memorandum, we were not aware of any infringement by us of intellectual property rights owned by third parties or infringement by third parties of our intellectual property rights.

Insurance

There are no national mandatory provisions under the relevant PRC laws and regulations requiring property developers to maintain insurance coverage with respect to their operations. The major types of insurance that we maintain include medical insurance and employer liability insurance for our Hong Kong employees. As of the date of this offering memorandum, we had not experienced any significant loss or damage to our properties.

For our property development business, we typically require the construction contractors of our property development projects to purchase construction in progress insurance for our projects under development.

We believe we maintain adequate insurance coverage for our operations and that the scope of the coverage is in line with industry norms. However, there are certain risks for which we are not insured, and we may not have sufficient insurance coverage for damages and liabilities that may arise in the course of our business operations. Please see “Risk factors – Risks relating to our business – We may not have adequate insurance coverage to cover our potential liabilities or losses” for further details.

Employees

As of December 31, 2020, we employed a total of approximately 6,813 full-time employees. Most of our employees are located in the PRC. The table below sets out details of the number of our employees as of December 31, 2020:

| <u>Job nature</u> | <u>Number of Employees</u> |
|--|----------------------------|
| Senior management | 113 |
| Sales and marketing | 527 |
| Administration and human resources | 178 |
| Finance and accounting | 202 |
| Engineering and cost control | 431 |
| Basic Services | 5,362 |
| Total | <u>6,813</u> |

We believe that our workforce is one of the most important assets of our Group and we rely on our employees in striving for future success. We enjoy good relationships with our employees and have not had any material turnover of staff or disruption to our business operations due to labour disputes. In order to equip our employees with a view to enhance their work performance, we provide vocational training to our employees. We believe that our management have and will continue to maintain good relations with our employees.

Occupational Health and Work Safety

As required by applicable PRC laws and regulations, we participate in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance.

We are subject to laws and regulations in relation to workplace safety in the PRC. We have developed a safety management system to implement our safety policies and procedures. Our administrative and human resources department at the headquarters level is responsible for overseeing the safety of our employees during the overall project development process.

With respect to construction site safety, our construction contractors are responsible for the safety of their workers on the construction sites and are required to maintain accident insurance for their workers. We generally do not carry insurance against personal injuries that may occur on-site but require our construction contractors to purchase accident insurance to cover their workers' medical and other related expenses. We also engage independent third party construction supervision companies to monitor safety measures throughout the construction process and report inspection results to us regularly.

Environmental Matters

We are subject to a number of environmental and safety laws and regulations in the PRC including the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Appraisal Measures for the Impact on the Environment of the PRC (中華人民共和國環境影響評價法) and the Regulations Governing Environmental Protection of Construction Projects (建設項目環境保護管理條例). Please see "Regulatory Overview" for further details. In accordance with applicable laws and regulations, we have engaged independent environmental consultants to assess the environmental impact of our construction projects. We are required to submit assessment reports to the relevant governmental authorities for approval of the projects.

Under our typical construction contracts, we require our contractors to comply with relevant environmental laws and regulations.

Upon completion of construction works, we are required to apply for an examination with respect to environmental matters from the relevant governmental authorities. Only property development projects which have passed such examination can be delivered to our customers. All of our completed properties have passed inspections by the environmental protection authorities, and we have obtained the relevant environmental assessment approvals with respect to our properties under development.

During the years ended December 31, 2018, 2019 and 2020, we incurred environmental compliance costs in the amount of approximately RMB8.1 million, RMB31.2 million and RMB20.9 million (US\$3.2 million), respectively. We expect to continue to incur compliance costs at a similar rate.

Properties Used by Us

We own the property used for our Hong Kong office. In addition, we also maintain offices at the project site of each of our property development projects. We own or lease the properties used for these offices. We do not anticipate any difficulty in renewing these leases or leasing replacement premises.

Licences, Permits and Qualifications

As of the date of this offering memorandum, save as disclosed in this offering memorandum, we have obtained all material requisite licences, permits, certificates and approvals for our business operations in the PRC.

We have not renewed, and do not intend to renew, the qualification certificates of Yangzhou Hengyuan, Yangzhou Mingyuan and Yangzhou Guangyuan as all property development projects under these three subsidiaries have been completed. Save for the above, we will apply to the relevant government authorities to renew our licences, permits and qualification certificates before their expiry.

Legal Proceedings

From time to time, we may be involved in legal proceedings or other disputes in the ordinary course of business.

As of the date of this offering memorandum, we are not aware of any legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse effect on our business or results of operations and financial condition. See “Risk factors – Risks relating to our business – We may be involved in disputes, legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result”.

REGULATORY OVERVIEW

This section sets out a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate. These include laws relating to the establishment of real estate development enterprises, acquisition of land use rights, property development, sales/pre-sales of commodity buildings, and environment protection, etc.

ESTABLISHMENT OF REAL ESTATE DEVELOPMENT ENTERPRISES

General provisions

In accordance with the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》)(the “**Urban Real Estate Law**”) (promulgated on July 5, 1994, revised on August 30, 2007 and August 27, 2009 and latest amended on August 26, 2019 and such latest amendment came into effect on January 1, 2020, real estate development enterprises are defined as the enterprises that engage in real estate development and operation for the purpose of making profits. In accordance with the Regulations on Administration of Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》)(the “**Development Regulations**”) (promulgated and implemented on July 20, 1998 by the State Council, revised on January 8, 2011, March 19, 2018 and March 27, 2020 and last amended on November 29, 2020), the establishment of a real estate development enterprise shall, in addition to the conditions for the enterprise establishment prescribed by relevant laws and administrative regulations, fulfill the following conditions: (i) the registered capital shall be RMB1 million or above ; (ii) the enterprise shall employ no less than 4 full-time technical personnel with certificates of qualifications of real estate specialty and construction engineering specialty and no less than 2 full-time accountants with certificates of qualifications. People's governments of provinces, autonomous regions and centrally-administered municipalities may, based on the actual conditions of the locality, set out more stringent requirements in respect of registered capital and technical professionals.

Foreign investment in real estate development

On March 15, 2019, the National People's Congress approved the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》)(the “**Foreign Investment Law**”), which came into effect on January 1, 2020 and replace the Sino-Foreign Equity Joint Venture Enterprise Law of the People's Republic of China (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the People's Republic of China (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法》), and become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law sets out the basic regulatory framework for foreign investments and proposes to implement a system of pre-entry national treatment with a negative list for foreign investments, pursuant to which (i) foreign natural persons, enterprises or other organizations (collectively the “**foreign investors**”) shall not invest in any sector forbidden by the negative list for access of foreign investment, (ii) for any sector restricted by the negative list, foreign investors shall conform to the investment conditions provided in the negative list, and (iii) sectors not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated equally. The Foreign Investment Law also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information report system in which foreign investors or foreign-funded enterprises shall submit the investment information to competent departments of commerce through the enterprise registration system and the enterprise credit information publicity system.

Under the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》)(the “**Catalogue**”) promulgated by MOFCOM and NDRC on March 10, 2015 and became effective on April 10, 2015, the construction of large-scale theme park falls within the category of industries in which foreign investment is restricted; the construction of golf courses and villas falls within the

category of industries in which foreign investment is prohibited; and other real estate development falls within the category of industries in which foreign investment is permitted. Pursuant to the amended Catalogue (the “**Catalogue (Edition 2017)**”) promulgated by MOFCOM and NDRC on June 28, 2017 and became effective on July 28, 2017 and the Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 2018)(《外商投資准入特別管理措施(負面清單)(2018年版)》)(the “**Negative List (Edition 2018)**”) promulgated by the NDRC and the MOFCOM on June 28, 2018 and came into effect on July 28, 2018, real estate development does not fall within the Negative List (Edition 2018) and the restrictive measures for construction of large-scale theme park, golf courses and villas are equally applicable to domestic and foreign investment. On June 30, 2019, MOFCOM and NDRC promulgated the Catalogue of Industries for Encouraging Foreign Investment (Edition 2019)(《鼓勵外商投資產業目錄》) and the Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 2019)(《外商投資准入特別管理措施(負面清單)(2019年版)》), both of which became effective on July 30, 2019 and superseded the Catalogue (Edition 2017) and the Negative List (Edition 2018) and on June 23, 2020, MOFCOM and NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 2020)(《外商投資准入特別管理措施(負面清單)(2020年版)》), while the policy for the real estate development remains the same.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the NDRC, the People’s Bank of China (the “**PBOC**”), the State Administration of Market Regulation (the “**SAIC**”) and the State Administration of Foreign Exchange (the “**SAFE**”) jointly issued the Opinions on Regulating the Access and Administration of Foreign Investment in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》), amended on August 19, 2015, which provides that: (i) foreign organizations and individuals who have established foreign-invested enterprises are allowed to invest in and purchase non-owner-occupied real estate in China; while branches of foreign organizations established in China are eligible to purchase commercial houses which match their actual needs for self-use under their names; (ii) the registered capital of foreign-invested real estate enterprises with the total investment amount exceeding or equal to US\$10 million shall be no less than 50% of their total investment; (iii) foreign-invested real estate enterprises can apply for renewing the official foreign-invested enterprise approval certificate and business license with an operational term of one year only after they have paid all the land premium and obtained the land administration department for the state-owned land use right certificate; (iv) with respect to equity transfer and project transfer of a foreign-invested real estate enterprise and the merger and acquisition of a domestic real estate enterprise by an overseas investor, the department in charge of commerce and other departments shall conduct examination and approval in strict compliance with the provisions of the relevant laws, regulations, and policies. The investor concerned shall submit a letter of guarantee on its promise to perform the Contract on the Transfer of State-owned Land Use Right (國有土地使用權出讓合同), the License for the Planning of Construction Land (建設用地規劃許可證), the License for the Planning of Construction Projects (建設工程規劃許可證) etc., and shall submit the Certificate for the Use of State-owned Land (國有土地使用證), the documents certifying that the change of registration has been filed with the relevant department in charge of construction (real estate) for record, and the certification materials issued by the relevant taxation authority on the tax payment in relevance; (v) foreign investors shall pay all considerations for the transfer in a lump sum with their own funds if they acquire Chinese real estate enterprises or any equity interest held by Chinese parties in Sino-foreign Equity Joint Venture engaged in the real estate industry.

On August 19, 2015, the Ministry of Housing and Urban-Rural Development of the People’s Republic of China (the “**MOHURD**”), MOFCOM, NDRC, PBOC, SAIC and SAFE jointly promulgated the Circular on Amending the Policies Concerning Access by and Administration of Foreign Investment in the Real Estate Market (《關於調整房地產市場外資准入和管理有關政策的通知》), which amended certain policies on foreign-invested real estate enterprises and property purchased by overseas organizations and individuals as stated in the Opinions on Regulating the Access and Administration of Foreign Investment in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》) as follows, the requirements for the registered capital of foreign-invested real estate enterprises shall follow the provisions in the Provisional Regulations of the State Administration for Industry and

Commerce on the Proportion of Registered Capital to Total Amount of Investment of a Sino-foreign Equity Joint Ventures (《國家工商行政管理局關於中外合資經營企業注冊資本與投資總額比例的暫行規定》) promulgated and became effective on February 17, 1987; the requirement on full payment of registered capital of the foreign-invested real estate enterprises before applying for domestic or foreign loans or foreign exchange loan settlement are canceled.

QUALIFICATIONS OF REAL ESTATE DEVELOPERS

In accordance with the Development Regulations, a real estate development enterprise shall, within 30 days starting from the date of receipt of the business license, file the relevant documents for record to the real estate development authorities located at its place of registration. The real estate development authorities shall, on the basis of the assets, specialized technical personnel and business achievements, verify the class of qualification of the real estate development enterprise in question. The real estate development enterprise shall undertake real estate development projects in compliance with the verified class of qualification. Relevant detailed rules shall be formulated by the department of the construction administrative of the State Council.

Pursuant to the Regulations on Administration of Qualification of Real Estate Development Enterprises (《房地產開發企業資質管理規定》)(the “**Circular 77**”) promulgated on November 16, 1993 and amended on March 29, 2000, May 4, 2015 and December 22, 2018, an enterprise engaged in real estate development shall apply for the approval in accordance with the provisions of application for the enterprise qualification classification. Enterprises that fail to obtain certificates of real estate investments shall not engage in the real estate development business. Enterprises engaged in real estate development are classified into four qualification classes: Class I, Class II, Class III and Class IV on the basis of their financial conditions, experience in real estate development business, construction quality, the professional personnel and quality control system etc.

Pursuant to the Circular 77, enterprises of various qualification classes shall engage in real estate development and management projects within the approved scope of business and shall not undertake any tasks which fall outside the approved scope of their own qualification classes.

LAND USE RIGHTS FOR REAL ESTATE DEVELOPMENT

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. Where land in rural areas and suburban areas are legally owned by the State, the State holds ownership rights. The State has the right to take its ownership of land or the land use rights in accordance with laws for reasons of public interest protection. In that event, compensation shall be paid by the State.

Although all land in the PRC is either state-owned or collectively-owned, individuals and entities may obtain land use rights and hold such land use rights for development purposes. Individuals and entities may acquire land use rights in different ways, the two most important ways are obtaining land grants from local land authorities and land which is transferred from land users who have already obtained land use rights.

Land grants

National legislation

On April 12, 1988, the National People’s Congress (the “**NPC**”) passed an amendment to the Constitution of the PRC (《中華人民共和國憲法》). The amendment allowed the transfer of land use rights for value to prepare for reforms of the legal regime governing the use of land and the transfer of land use rights. On December 29, 1988, the Standing Committee of the NPC also amended the Land Administration Law of the People’s Republic of China (《中華人民共和國土地管理法》) to permit the transfer of land use rights for value.

On May 19, 1990, the State Council enacted the Provisional Regulations of the People's Republic of China Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) which was amended on November 29, 2020. These regulations, generally referred to as the Urban Land Regulations, formalized the process of the grant and transfer of land use rights for value.

Upon paying the land premium in full pursuant to the terms of the contract, a land-grantee may apply to the relevant land bureau for the land use right certificate. In accordance with the Civil Code of the People's Republic of China (《中華人民共和國民法典》), which was promulgated by NPC on May 28, 2020 and came into effect on January 1, 2021 and replaced the Property Rights Law of the People's Republic of China (《中華人民共和國物權法》), the term of land use rights for land of residential use will automatically be renewed upon expiry. The renewal of the term of land use rights for other uses shall be dealt with according to the then-current relevant laws. In addition, if the State requests for the possession of land for public interest during the term of the relevant land use rights, compensation shall be paid to the owners of residential properties and other real estate on the land and the relevant land premium shall be refunded to them by the State.

Ways of land grant

Pursuant to PRC laws and the stipulations of the State Council, except for land use rights which may be obtained through allocation, land use rights for property development are obtained through the grant from government. There are two ways by which land use rights may be granted, namely by private agreement or competitive processes (i.e., tender, auction or listing at a land exchange administered by the local government).

As of July 1, 2002, the grant of land use rights by way of competitive processes is governed by the Regulations on the Grant of Use Right of State-Owned Land by Bidding, Auction or Listing (《招標拍賣掛牌出讓國有土地使用權規定》), issued by the Ministry of Land and Resources of the PRC on May 9, 2002 and revised as of September 28, 2007 with the name of Regulations on Granting State-Owned Construction Land Use Right through Bidding, Auction and Listing (《招標拍賣掛牌出讓國有建設用地使用權規定》)(the “**Land Grant Regulations**”) which became effective on November 1, 2007. The Land Grant Regulations specifically provide that land to be used for industrial, commercial, tourism, entertainment or commodity residential purposes, or where there are two or more intended users for the certain piece of land, shall be granted by way of competitive processes. A number of measures are provided by the Land Grant Regulations to ensure such grant of land use rights for commercial purposes is conducted in an open and fair manner.

On May 13, 2011, the Ministry of Land and Resources promulgated the Opinions on Upholding and Improving the System for the Transfer of Land by Bidding, Auction and Listing (《關於堅持和完善土地招標拍賣掛牌出讓制度的意見》), which provides stipulations to improve policies on the supply of land through public bidding, auction and listing, and strengthen the active role of land transfer policy in the control of the real estate market.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》) which became effective on August 1, 2003, to regulate the grant of land use rights by agreement when there is only one land use applicant and the designated uses of which are other than for commercial purposes as described above. The criteria on the Remising of State-owned Land Use Right by Agreement (For Trial Implementation) (《協議出讓國有土地使用權規範》(試行)) issued by the Ministry of Land and Resources on May 31, 2006 and came into effect on August 1, 2006 further clarifies the specific due procedures and requirements related to remising of state-owned land use right by agreement.

According to the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Edition) and the Catalog for Prohibited Land Use Projects (2012 Edition)(《關於發布實施〈限制用地項目目錄(2012年本)〉和〈禁止用地項目目錄(2012年本)〉的通知》) promulgated by the

Ministry of Land and Resources and NDRC in May 2012, the granted area of the residential housing projects shall not exceed (i) 7 hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, or (iii) and 20 hectares for large cities and plot ratio which shall not be lower than 1.0.

Land transfer from current land users

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract with such land users.

For real estate development projects, the Urban Real Estate Law requires that at least 25% of the total amount of investment or development must have been carried out before an assignment can take place. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee. Relevant local governments may acquire the land use rights from a land user in the event of a readjustment of the use of land for renovating the old urban area according to city planning. The land user will then be compensated for the loss of land use rights.

DEVELOPMENT OF REAL ESTATE PROJECTS

Commencement of real estate development projects

According to the Urban Real Estate Law, those who have obtained the right of land use by the way of grant for real estate development must develop the land in accordance with the specified land use and within the construction period as prescribed in the grant contract. When the land user fails to commence development after one year since the date of starting the development as prescribed by the grant contract, an idle land fee no more than 20% of the land grant premium may be collected and when the land user fails to commence development after two years, the right to use the land may be confiscated without any compensation, except where the delays are caused by *force majeure*, the activities of government, or the delay in the necessary preliminary work for starting the development.

Pursuant to the Measures on Disposal of Idle Land (《閒置土地處置辦法》), which was promulgated on April 28, 1999 by the Ministry of Land and Resources and revised on June 1, 2012, land can be defined as idle land under any of the following circumstances:

- development and construction of the state-owned idle land is not commenced after one year of the prescribed time prescribed in the land use right grant contract or allocation decision; or
- the development and construction of the state-owned idle land has been commenced but the area of the development and construction that has been commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval.

Where the delay of commencement of development is caused by the government's action or due to the *force majeure* of natural disasters, the land administrative authorities shall discuss with the holder of state-owned construction land use rights and select the methods for disposal in accordance with the Measures on Disposal of Idle Land.

Planning of real estate projects

Under the Regulations on Planning Administration regarding Granting and Transfer of State-Owned Land Use Right in Urban Area (《城市國有土地使用權出讓轉讓規劃管理辦法》) promulgated by the Ministry of Construction on December 4, 1992 and amended on January 26, 2011, a real estate developer shall apply for a License for the Planning of Construction Land (建設用地規劃許可證) from the municipal planning authority. After obtaining the License for the Planning of Construction Land, the real estate developer shall conduct all necessary planning and design works in accordance with relevant

planning and design requirements. A planning and design proposal in respect of the real estate project shall be submitted to the municipal planning authority in compliance with the requirements and procedures under the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》), which was issued on October 28, 2007 and amended on April 24, 2015 and April 23, 2019, and a License for the Planning of Construction Projects (建設工程規劃許可證) from the municipal planning authority should be obtained by the real estate developer.

Construction Work Commencement License

The real estate developer shall apply for a Construction Work Commencement License (建築工程施工許可證) from the relevant construction authority in accordance with the Regulations on Administration Regarding Permission for Commencement of Construction Works (《建築工程施工許可管理辦法》) promulgated by the Ministry of Construction on October 15, 1999 and amended on July 4, 2001 and June 25, 2014, September 28, 2018 and latest amended on March 30, 2021 by MOHURD.

Acceptance and examination upon completion of real estate projects

Pursuant to the Development Regulations, the Administrative Measures for the Registration Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the Ministry of Construction on April 4, 2000 and amended on October 19, 2009 and the Provisions on Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated and implemented by the MOHURD on December 2, 2013, upon the completion of a real estate development project, the real estate development enterprise shall submit an application to the competent department of real estate development of local government at or above the county level, where the project is located, for examination upon completion of building and for filing purposes; and to obtain the Filing Form for Acceptance and Examination upon Completion of Construction Project. A real estate project shall not be delivered before passing the acceptance examination.

INSURANCE OF REAL ESTATE PROJECTS

There are no nationwide mandatory requirements in the PRC laws, regulations and government rules requiring a real estate developer to maintain insurance for its real estate projects. According to the Construction Law of the People's Republic of China (《中華人民共和國建築法》) promulgated by the Standing Committee of the NPC on November 1, 1997 and became effective on March 1, 1998 and amended on April 22, 2011 and April 23, 2019, construction enterprises shall maintain work injury insurance and pay the insurance premium, while enterprises are encouraged to take up accident liability insurance for employees engaged in dangerous operations and pay the insurance premium. In the Opinions of the Ministry of Opinions on Strengthening the Insurance of Accidental Injury in the Construction Work (《建設部關於加強建築意外傷害保險工作的指導意見》) promulgated by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasized the importance of the insurance of accidental injury in the construction work and put forward a detailed guidance opinion.

REAL ESTATE TRANSACTIONS

Sale of commodity properties

Under the Measures for Administration of the Sales of Commodity Properties (《商品房銷售管理辦法》) (the "Sale Measures") promulgated by the Ministry of Construction on April 4, 2001 and became effective on June 1, 2001, the sale of commodity properties includes both sales prior to and after the completion of the properties.

Pre-sale of commodity properties

Any pre-sales of commodity properties must be conducted in accordance with the Measures for Administration of Pre-sales of Commodity Properties (《城市商品房預售管理辦法》) promulgated by the Ministry of Construction on November 15, 1994, as amended on August 15, 2001 and July 20, 2004 (the “**Pre-sales Measures**”). The Pre-sales Measures provides that any pre-sales of commodity properties is subject to specified procedures. If a real estate developer intends to sell commodity properties in advance, it shall apply to the real estate administrative authority to obtain a pre-sales license.

Pursuant to the Urban Real Estate Law and the Pre-sales Measures, the proceeds from the pre-sales of commodity properties shall be used to fund the development and construction of the corresponding projects.

Furthermore, under the Circular on Issues Concerning Further Strengthening the Supervision and Administration of the Real Estate Market and Improving the Pre-sale System of Commodity Properties (《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》) issued by the MOHURD on April 13, 2010, all proceeds from the pre-sales of commodity properties shall be supervised and managed by relevant authorities so as to ensure that the proceeds to be used for the development and construction of the corresponding projects. The proceeds from the pre-sales would be allocated according to the construction progress, provided that adequate fund has been reserved to ensure the completion and delivery of the projects.

Sales after completion of commodity properties

Under the Sale Measures, commodity properties may be put to post-completion sale only when the following conditions have been satisfied: (i) the real estate development enterprise offering to sell the post-completion buildings has obtained an enterprise legal person business license and a qualification certificate of real estate development; (ii) the enterprise has obtained land use right certificates or other approval documents of land use; (iii) the enterprise has obtained the License for the Planning of Construction Projects and the Construction Work Commencement License; (iv) the commodity properties have been completed and been inspected and accepted as qualified; (v) the relocation of the original residents has been well settled; (vi) the supplementary essential facilities for supplying water, electricity, heating, gas and communication have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date have been specified; and (vii) the property management proposal has been completed.

The Provisions on Sales of Commodity Properties at Clearly Marked Price (《商品房銷售明碼標價規定》) was promulgated by the NDRC on March 16, 2011 and became effective on May 1, 2011. According to the provisions, any real estate developer or real estate agency is required to mark the selling price explicitly and clearly for both newly-built and second-hand commercial properties.

On February 26, 2013, the General Office of the State Council issued the Notice on Continuing the Regulation of Real Estate Market (《關於繼續做好房地產市場調控工作的通知》) which is intended to cool down the property market and emphasize the government’s determination to strictly enforce regulatory and macro-economic measures, which include, among other things, (i) restrictions on purchasing the real estate, (ii) increased down payment requirement for second residential properties purchase, (iii) suspending mortgage financing for second or more residential-properties purchase and (iv) 20% individual income tax rate applied to the gain from the sales of properties.

Mortgage of properties

The mortgage of real estate in the PRC is mainly governed by the Civil Code of the People’s Republic of China (《中華人民共和國民法典》) and the Measures for Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》). According to these laws and regulations, land use rights, the buildings and other real fixtures may be mortgaged. When a mortgage is created on the

ownership of a building legally obtained, a mortgage shall be simultaneously created on the use right of the land on which the building is located. The mortgagor and the mortgagee shall enter into a mortgage contract in writing. A system has been adopted to register the mortgages of real estate. After a real estate mortgage contract has been signed, the contract parties shall register the mortgage with the real estate administration authority at the location where the real estate is situated. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority shall make an entry under the “third party rights” item on the original property ownership certificate and issue a Certificate of Third Party Rights to a Building (房屋他項權證) to the mortgagee.

Lease of properties

Both the Urban Land Regulations and the Urban Real Estate Law permit the leasing of granted land use rights and of the buildings or houses erected on the land. On December 1, 2010, MOHURD promulgated the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》) (the “**New Lease Measures**”), which became effective on February 1, 2011, and replaces the Administrative Measures for Urban House Leasing (《城市房屋租賃管理辦法》). Pursuant to the New Lease Measures, parties thereto shall register and file with the local property administration authority within thirty days after entering into the lease contract. Non-compliance with such registration and filing requirements shall be subject to fines up to RMB1,000 (individuals) and RMB1,000 to 10,000 (enterprises) provided that they fail to rectify within required time limits. According to the Urban Real Estate Law, the land proceeds included in the rental income derived from any building situated on allocated land where the land use rights have been obtained through allocation, shall be turned over to the State.

Under the Civil Code of the People’s Republic of China (《中華人民共和國民法典》), which replaced the Contract Law of the People’s Republic of China (《中華人民共和國合同法》), the term of a leasing contract shall not exceed 20 years.

REAL ESTATE REGISTRATION

The Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), promulgated by the State Council on November 24, 2014 and became effective on March 1, 2015 and amended on March 24, 2019, and the Implementing Rules of the Interim Regulations on Real Estate Registration (《不動產登記暫行條例實施細則》) promulgated by the Ministry of Land and Resources on January 1, 2016 and amended on July 24, 2019, provide that, among other things, the State implements a uniform real estate registration system and the registration of real estate shall be strictly managed and shall be carried out in a stable and continuous manner that provides convenience for the people.

REAL ESTATE FINANCING

Loans to real estate development enterprises

On August 30, 2004, the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) issued a Guideline for Commercial Banks on Risks of Real Estate Loans (《商業銀行房地產貸款風險管理指引》). According to this guideline, no loans shall be granted to projects which have not obtained requisite land use right certificates, construction land planning licenses, construction work planning permits and construction work commencement permits. The guideline also stipulates that bank loans shall only be extended to real estate developers who applied for loans and contributed not less than 35% of the total investment of the property development project by its own capital. In addition, the guideline provides that commercial banks shall set up strict approval systems for granting loans.

On July 29, 2008, the PBOC and the CBIRC issued the Notice on Financially Promoting the Land Saving and Efficient Use (《關於金融促進節約集約用地的通知》), which, among other things,

- restricts granting loans to real estate developers for the purpose of paying land grant premiums;
- provides that, for secured loans for land reserve, legal land use right certificates shall be obtained;
- the loan on mortgage shall not exceed 70% of the appraised value of the collateral, and the term of loan shall be no more than two years in principle;
- provides that for the real estate developer who (i) delays the commencement of development date specified in the land use right grant agreement for more than one year, (ii) has not completed one-third of the intended project, or (iii) has not invested one-fourth of the intended total project investment, loans shall be granted or extended prudently;
- prohibits granting loans to the real estate developer whose land has been idle for more than two years; and
- prohibits taking idle land as a security for loans.

On September 29, 2010, the PBOC and the CBIRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), which restricts the grant of new project bank loans or extension of credit facilities for all property companies with non-compliance records regarding, among other things, holding idle land, changing land use and nature of the land, postponing construction commencement or completion, or hoarding properties.

Trust loan

On March 1, 2007, The Measures for Administration of Trust Companies (《信托公司管理辦法》), which was promulgated by the CBIRC on January 23, 2007, came into effect. For the purposes of these measures, “**Trust Company**” shall mean any financial institution established pursuant to the PRC Company Law and the Measures for Administration of Trust Companies, and that primarily engages in trust activities.

From October 2008 to November 2010, the CBIRC issued several regulatory notices in relation to real estate activities conducted by Trust Companies, including a Circular on Relevant Matters Regarding Strengthening the Supervision of the Real Estate and Securities Businesses of Trust Companies (《關於加強信托公司房地產、證券業務監管有關問題的通知》), promulgated by the CBIRC on October 28, 2008 and became effective on the same date, pursuant to which Trust Companies are restricted from providing trust loans, in form or in nature, to property projects that have not obtained the requisite land use right certificates, construction land planning licenses, construction work planning licenses and construction work commencement licenses and the property projects of which less than 35% of the total investment is funded by the real estate developers’ own capital, then the 35% requirement was changed to 20% for affordable housing and ordinary commodity apartments and to 30% for other property projects as provided by the Notice on Adjusting the Capital Ratio of Fixed Assets Investment Projects (《關於調整固定資產投資項目資本金比例的通知》) issued by the State Council on May 25, 2009, and then the 30% requirement was changed to 25% for other property projects as provided by the Notice of the State Council on Adjusting and Improving the Capital System for Fixed Assets Investment Projects (《國務院關於調整和完善固定資產投資項目資本金制度的通知》) issued by the State Council and became effective on September 9, 2015.

Housing loans to individual buyers

On April 17, 2010, the State Council issued the Notice on Strictly Restraining the Excessive Growth of the Property Prices in Some Cities (《關於堅決遏制部分城市房價過快上漲的通知》), pursuant to which, a stricter differential housing credit policy shall be enforced. It provides that, among

other things, (i) for a family member who is a first-time house buyer (including the debtors, their spouses and their juvenile children, similarly hereinafter) of the apartment with a GFA more than 90 sq.m., a minimum 30% down payment shall be paid; (ii) for a family who applies loans for its second house, the down payment requirement is raised to at least 50% from 30% and also provides that the applicable interest rate must be at least 1.1 times of that of the corresponding benchmark interest rate over the same corresponding period published by the PBOC; and (iii) for those who purchase three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks may suspend housing loans to third or more home buyers in places where house prices rise excessively, the prices are rapidly high and housing supply is insufficient.

The Notice on Certain Matters Concerning Individual Housing Loan Policies (《關於個人住房貸款政策有關問題的通知》) promulgated by PBOC, MOHURD and CBIRC on March 30, 2015 and became effective on the same date provides that where a household, which has already owned a house and has not paid off the relevant housing loan, applies for another commercial personal housing loan to purchase another ordinary housing property for the purpose of improving living conditions, the minimum down payment is adjusted to 40% of the property price. The actual down payment ratio and loan interest rate should be determined by the banking financial institution concerned based on the borrower's credit record and financial condition. For working households that have contributed to the housing provident fund, when they use the housing provident fund loans to purchase an ordinary residential house as their first house, the minimum down payment shall be 20% of the house price; for working households that have contributed to the housing provident fund and that have already owned a home and have paid off the corresponding home loans, when they apply for the housing provident fund loans for the purchase of an ordinary residential house as their second property to improve their housing conditions, the minimum down payment shall be 30% of the property price.

The Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Differentiated Housing Credit Lending Policies (《關於進一步完善差別化住房信貸政策有關問題的通知》) issued by PBOC and CBIRC on September 24, 2015, provides that in cities that control measures on property purchase are not imposed, where a household applies for the commercial personal housing loan to purchase his/her first ordinary housing property, the minimum down payment shall be adjusted to 25% of the house price. The minimum down payment ratio for the commercial personal housing loan of each city will be independently determined by each provincial pricing self-disciplinary mechanism of market interest based on the actual situation of each city under the guidance of PBOC and the CBIRC local office.

The Notice on Adjustments in Respect of Certain Matters Concerning Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), promulgated by PBOC and CBIRC on February 1, 2016, provides that in the cities that control measures on property purchase are not imposed, where a household applies for the commercial personal housing loan to purchase its first ordinary housing property, the minimum down payment, in principle, shall be 25% of the property price and each city could adjust such ratio downwards by 5%; and where a household which has already owned a house and has not paid off the relevant housing loan, applies for another commercial personal housing loan to purchase another ordinary housing property for the purpose of improving living conditions, the minimum down payment is adjusted to 30% of the property price. In the cities that control measures on property purchase are imposed, the individual housing loan policies shall be adopted in accordance with the original regulations and the actual down payment ratio and loan interest rate shall be determined reasonably by the banking financial institutions based on the requirements of minimum down payment ratio determined by provincial pricing self-disciplinary mechanism of market interest, the loan-issuance policies and the risk control for commercial personal housing loan adopted by such banking financial institutions and other factors such as the borrower's credit record and capacity of repayment.

ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Prevention and Control of Noise Pollution Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》) and the Administrative Regulations on Environmental Protection for Acceptance Examination Upon Completion of Buildings (《建設項目竣工環境保護驗收管理辦法》). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form shall be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities and the construction unit will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

FIRE PREVENTION MANAGEMENT

According to the Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》) promulgated by the Standing Committee of the NPC on April 29, 1998 and became effective on September 1, 1998, later amended on October 28, 2008 and became effective on May 1, 2009, and latest amended on April 23, 2019 and became effective on the same day, fire prevention facilities design and works for construction projects shall conform to State's fire prevention technical standards for engineering construction.

CIVIL AIR DEFENSE PROPERTY

Pursuant to the PRC Law on National Defense (《中華人民共和國國防法》) promulgated by the NPC on March 14, 1997, as amended on August 27, 2009 and December 26, 2020 and became effective on January 1, 2021, national defense assets are owned by the state. Pursuant to the PRC Law on Civil Air Defense (《中華人民共和國人民防空法》)(the “**Civil Air Defense Law**”), promulgated by the NPC on October 29, 1996, as amended on August 27, 2009, civil air defense is an integral part of national defense. The Civil Air Defense Law encourages the public to invest in the construction of civil air defense property and investors in civil air defense are permitted to use, manage the civil air defense property in time of peace and profit therefrom. However, such use must not impair their functions as air defense property. The design, construction and quality of the civil air defense properties must conform to the protection and quality standards established by the State. On November 1, 2001, the National Civil Air Defense Office issued the Administrative Measures for Developing and Using the Civil Air Defense Property at Ordinary Times (《人民防空工程平時開發利用管理辦法》) and the Administrative Measures for Maintaining the Civil Air Defense Property (《人民防空工程維護管理辦法》), which specify how to use, manage and maintain the civil air defense property.

MEASURES ON STABILIZING HOUSING PRICES

The Notice on Adjusting the Business Tax Policies Concerning Transfer of Individual Housing (《關於調整個人住房轉讓營業稅政策的通知》) promulgated by the Ministry of Finance of the People's Republic of China (the “**MOF**”) and the State Taxation Administration (the “**SAT**”) on March 30, 2015 and became effective on March 31, 2015 provides that where an individual sells a property purchased within two years, business tax shall be levied on the full amount of the sales income; where an individual sells a non-ordinary property that was purchased more than two years ago, business tax shall be levied on the difference between the sales income and the original purchase price of the house; the sale of an ordinary residential property purchased by an individual more than two years ago is not subject to such business tax.

The Notice of the Ministry of Finance, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development on Adjusting the Preferential Policies on Deed Tax and Business Tax during Real Estate Transactions (《財政部、國家稅務總局、住房城鄉建設部關於調整房地產交易環節契稅、營業稅優惠政策的通知》)(the “**Notice**”) promulgated on February 17, 2016 and became effective on February 22, 2016 provides that: (i) in the case of an one-and-only household residential property purchased by individuals (family members shall include the buyer, his/her spouse and underage children, same hereinafter), where the area is 90 sq.m. or below, deed tax shall be levied at the reduced rate of 1%; where the area exceeds 90 sq.m., deed tax shall be levied at the reduced rate of 1.5%; and (ii) the purchase of a second house by an individual for making house improvements for his/her family is subject to deed tax at a reduced rate of 1% if the area of the house is 90 sq.m. or less, or 2% if the area is over 90 sq.m.. Meanwhile, the Notice specifies that the sale of a house that has been purchased by an individual for less than two years is subject to business tax at a full rate; and the sale of a house that has been purchased by an individual for two years or more is exempted from business tax. In addition, the Notice stresses that certain preferential business tax policies shall not apply to Beijing Municipality, Shanghai Municipality, Guangzhou City and Shenzhen City for the time being.

In accordance with Circular of the Ministry of Housing and Urban-Rural Development and the Ministry of Land and Resources on Tightening the Management and Control over Intermediate Residential Properties and Land Supply (《住房城鄉建設部、國土資源部關於加強近期住房及用地供應管理和調控有關工作的通知》)(promulgated and implemented on April 1, 2017 by Ministry of Land and Resources and MOHURD), in cities featuring obvious contradiction between the supply of and demand for housing or under pressure due to increasing housing prices and more housing land, in particular the land for ordinary commercial houses, shall be supplied to a reasonable extent, and the housing land supply shall be reduced or even suspended in cities requiring a lot of destocking of real estate. All the local authorities shall build a land purchase money inspection system to ensure that the real estate developers use their own legal funds to purchase land.

Pursuant to the Notice of MOHURD on Further Improving the Management and Control over the Real Estate Market (《住房城鄉建設部關於進一步做好房地產市場調控工作有關問題的通知》) promulgated and implemented on May 19, 2018 by MOHURD, all regions shall take practical measures to achieve targets of stabilizing housing prices, controlling rents, reducing leverage, preventing risks, adjusting structure, and stabilizing expectations, support rigid housing demands, and resolutely curb property speculation. It is necessary to improve the supply mode of commercial houses land and establish a linkage mechanism for land price and house price so as to prevent land prices from pushing up house prices. In key cities, the proportion of residential land should be enhanced and it is suggested that residential land represent at least 25 percent of land set aside for urban development.

FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (《外匯管理條例》)(the “**SAFE Regulations**”) which was promulgated by the State Council and last amended on August 5, 2008. Under the SAFE Regulations, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained.

Pursuant to the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》)(the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident (the “**PRC Resident**”) shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or

controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV's PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV's registered capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》)(the “**Circular 13**”), which was promulgated on February 13, 2015 and with effect from June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

TAXES

Enterprise Income Tax (EIT)

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》)(the “**EIT Law**”) which was promulgated on March 16, 2007 and amended on February 24, 2017 and December 29, 2018, a unified income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. 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 unified 25% enterprise income tax rate as to their global income.

Furthermore, pursuant to the EIT Law and the Implementation Rules on the Enterprise Income Tax (《企業所得稅法實施條例》) which was promulgated on December 6, 2007 and with effect from January 1, 2008 and amended on April 23, 2019, a withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors. In addition, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006 and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. According to the Notice of the State Administration of Taxation, or SAT on issues regarding the Administration of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on February 20, 2009, recipients of dividends paid by PRC enterprises must satisfy certain requirements in order to obtain a preferential income tax rate pursuant to a tax treaty, one such requirement is that the taxpayer must be the “beneficiary owner” of relevant dividends. In order for a corporate recipient of dividends paid by a PRC enterprise to enjoy preferential tax treatment pursuant to a tax treaty, such recipient must be the direct owner of a certain proportion of the share capital of the PRC enterprise at all times during the 12 months preceding its receipt of the dividends. In addition, the Announcement of the State Administration of Taxation on Issues concerning the “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) promulgated on February 3, 2018 and became effective on April 1, 2018, defined the “beneficial owner” as a person who owns or controls income or the rights or property based on which the income is generated, and introduced various factors to adversely impact the recognition of such “beneficiary owners”. On August 27, 2015, SAT issued the Announcement of the State Administration of Taxation on Promulgation of the “Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties” (《國家稅務總局關於發布〈非居民納

稅人享受稅收協定待遇管理辦法〉的公告》), effective on November 1, 2015 and amended on June 15, 2018 and October 14, 2019 (the last amendment came into effect on January 1, 2020), which applies to entitlement to tax treaty benefits by non-resident taxpayers incurring tax payment obligation in the PRC. According to the Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties, non-resident taxpayers who make their own declaration shall make self-assessment regarding whether they are entitled to tax treaty benefits and submit the relevant materials stipulated in Article 7 of the Measures. Also, all levels of tax authorities shall, through strengthening follow-up administration for non-resident taxpayers' entitlement to tax treaty benefits, implement tax treaties and international transport agreements accurately, and prevent abuse of tax treaties and tax evasion and tax avoidance risks.

Value-added Tax (VAT)

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated on December 13, 1993 revised on February 6, 2016 and last amended on November 19, 2017 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, the sale services, intangible assets, immovables, and the importation of goods are required to pay value-added tax (the "VAT").

Pursuant to the Announcement of the SAT on Promulgating the Interim Administrative Measures for the Collection of Value-added Tax on the Sale of Self-developed Real Estate Projects by Real Estate Developers (《國家稅務總局關於發布〈房地產開發企業銷售自行開發的房地產項目增值稅徵收管理暫行辦法〉的公告》) which was promulgated on March 31, 2016 and with effect from May 1, 2016 and amended on June 15, 2018, real estate developer shall pay VAT for the sales of its self-developed real estate project.

Land Appreciation Tax (LAT)

Under the Interim Regulations on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and last amended on January 8, 2011 as well as its implementation rules issued on January 27, 1995 (《中華人民共和國土地增值稅暫行條例實施細則》), land appreciation tax is payable on the appreciation value derived from the transfer of State-owned land use rights and buildings or other facilities on such land, after deducting the deductible items.

LABOR PROTECTION

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) which were separately with effect from January 1, 1995 (latest amended on December 29, 2018) and January 1, 2008(amended on December 28, 2012), respectively, labor contracts shall be concluded if labor relationships are to be established between the employer and the employees.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated on October 28, 2010 and with effect from July 1, 2011 and latest amended on December 29, 2018, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated and implemented on January 22, 1999 and amended on March 24, 2019 by the State Council, the Interim Measures Concerning the Maternity Insurance of Employees of Enterprises (《企業職工生育保險試行辦法》) promulgated on December 14, 1994 and implemented on January 1, 1995 by former Ministry of Labor, the Regulation on Occupational Injury Insurances (《工傷保險條例》) promulgated on April 27, 2003 by the State Council and implemented on January 1, 2004 and amended on December 20, 2010 by the State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, employees shall participate in basic pension insurance, basic medical insurance and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both

employers and employees. Employees shall also participate in work-related injury insurance and maternity insurance. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees. An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Pursuant to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) which was promulgated on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, employers shall undertake registration at the competent administrative center of housing provident fund and then, upon the examination by such administrative center of housing provident fund, undergo the procedures of opening the account of housing provident fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit housing provident fund for their employees in full amount.

INTELLECTUAL PROPERTY RIGHTS

Regulations on Trademarks

The Trademark Law of the PRC (《中華人民共和國商標法》) was promulgated in August 1982 and amended on February 22, 1993, October 27, 2001, August 30, 2013, and latest amended on April 23, 2019 and came into effect on November 1, 2019) and Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was promulgated on August 3, 2002 by the State Council and amended on April 29, 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

PRC MERGER & ACQUISITION

On October 8, 2016, Ministry of Commerce issued the Interim Administrative Measures for the Recordfiling of the Incorporation and Change of Foreign-invested Enterprises (the “**Circular 6**”)(《外商投資企業設立及變更備案管理暫行辦法》) which took effect on the same day and amended on July 30, 2017 and further amended on June 29, 2018. According to the Circular 6, where a non-foreign-invested enterprise changes into a foreign-invested enterprise which is not involved in special access administrative measures prescribed by the PRC government due to acquisition, consolidation by a merger or otherwise, which is subject to record-filing as stipulated in the Circular 6, it shall complete the record-filing formalities for incorporation and submit the Incorporation Application in accordance with Circular 6. On December 30, 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced Circular 6. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

MANAGEMENT

Board of Directors

Our Board consists of nine members (including three independent non-executive Directors).

Overview

As of the date of this offering memorandum, the Directors are as follows:

| <u>Name</u> | <u>Age</u> | <u>Title</u> |
|-------------------------------------|------------|--|
| Mr. Shum Tin Ching | 61 | Chairman and Non-executive Director |
| Mr. Zhang Yi | 48 | Executive Director and Vice Chairman |
| Mr. Huang Fuqing | 58 | Executive Director and Vice Chairman |
| Mr. Wang Jianfeng | 52 | Vice President and Executive Director |
| Ms. Cheuk Hiu Nam | 46 | Joint Company Secretary and Executive Director |
| Mr. Shen Xiaodong | 36 | Non-executive Director |
| Mr. Tai Kwok Leung, Alexander . . | 62 | Independent Non-executive Director |
| Dr. Cheung Wai Bun, Charles | 83 | Independent Non-executive Director |
| Mr. Gu Yunchang | 75 | Independent Non-executive Director |

Mr. Shum Tin Ching

Mr. Shum Tin Ching, also known as Shen Yuxing, is the Chairman of our Board, the chairman of our Nomination Committee and the founder of our Group. Mr. Shum was appointed as a Director on May 5, 2015 and designated as the non-executive Director on July 27, 2015. Mr. Shum has approximately 22 years of experience in the industry of real estate development. He is the founder of Jia Yuan Chuangsheng Holding Group Co., Ltd (佳源創盛控股集團有限公司) (“Jia Yuan Chuangsheng”) and served as a director since April 1995. Mr. Shum is currently an executive director of Boyuan Holdings Limited (stock code: BHL), which was listed on the Australian Securities Exchange on October 31, 2016. Mr. Shum is also the sole director of our controlling shareholder, Mingyuan Investment since May 4, 2015. In December 1986, he earned a diploma in Industrial Enterprise Management from Zhejiang Broadcasting and Television College (浙江廣播電視大學). He was recognized as a senior economist by Human Resource Department of Zhejiang Province (浙江省人事廳) in December 2006.

Mr. Zhang Yi

Mr. Zhang Yi was appointed as a vice chairman and an executive Director of the Company on February 17, 2019. He is primarily responsible for operation and overall management for the Group. Mr. Zhang has extensive experience in corporate management, industrial investment, mergers and acquisitions, operational integration and capital operation of listed companies. Prior to joining the Group, from August 2016 to January 2019, Mr. Zhang was an executive director and the chief executive officer of Grandland Holdings Group Co., Ltd. (廣田控股集團有限公司); he was also the chairman of Guangtian Investment Co., Ltd. (廣田投資有限公司) and the chairman of Shenzhen Wanding Futong Equity Investment Management Co., Ltd. (深圳萬鼎富通股權投資管理有限公司). Mr. Zhang served HNA Group Co., Ltd. (中國海航集團有限公司) from July 1995 to August 2016 and held various positions, which included: a project manager, a manager and a general manager assistant of the planning and finance department of Hainan Airlines, the financial controller and the general manager of Haikou Meilan International Airport Co., Ltd. (海口美蘭國際機場有限公司), the financial controller and the general manager of the planning and finance department of Hainan Airlines Holdings Co., Ltd. (海南航空控股股份有限公司) (formerly known as Hainan Airlines Co., Ltd. (海南航空股份有限公司)) (SHA: 600221), which is listed on the Shanghai Stock Exchange, a vice president and the financial controller of Haihang Tourism Holdings (Group) Co., Ltd. (海航旅遊控股(集團)有限公司), the chairman and the chief executive officer of HNA Hotel Holdings (Group) Co., Ltd. (海航酒店控股(集團)有限公司), the chairman and the chief executive officer of Haihang Real Estate Holdings (Group) Co., Ltd. (海航置業控股(集團)有限公司), the chairman and the chief executive officer of Haihang Commerce Holdings

(Group) Co., Ltd. (海航商業控股(集團)有限公司) and the chairman, the executive chairman, the chief executive officer and the president of Haihang Industry Holdings (Group) Co., Ltd. (海航實業控股(集團)有限公司). Mr. Zhang obtained his bachelor's degree in Economics from Wuhan University in June 1995 and his EMBA from Cheung Kong Graduate School of Business (長江商學院) in December 2006. He is now pursuing his EMBA with Tsinghua University PBC School of Finance (清華大學五道口金融學院). He became a senior accountant in July 2005.

Mr. Huang Fuqing

Mr. Huang Fuqing was appointed as an executive Director of our Board on July 27, 2015 and appointed as the Vice Chairman of our Board on August 19, 2016. Mr. Huang has approximately 21 years of experience in the industry of real estate development. He has been working as the general manager (in mainland China) of Hong Kong Jia Yuan since December 2014 and the general manager in Nanjing Xinhaoning since September 2014. From September 2013 to December 2014, he took up the position of the general manager of Changzhou Jinyuan. Mr. Huang worked in Zhejiang Jiayuan Group from January 2011 till he resigned from the position of the executive general manager in December 2014. From January 2010 to December 2010, he was the general manager of Changzhou Tian Yu. From December 2002 to December 2009, he was the general manager of Changzhou Zhongchuang Property Development Co., Ltd (常州市中創房地產開發有限公司). From December 1998 to December 2002, he was the manager of Changzhou City Changxin Property Development Co., Ltd (常州市常信房地產開發有限公司).

Mr. Wang Jianfeng

Mr. Wang Jianfeng was appointed as a vice president and an executive Director on July 27, 2015. Mr. Wang has approximately 28 years of experience in the real estate development industry. He has been working as the deputy general manager of Hong Kong Jia Yuan since January 2014. From June 2012 to February 2013, he was the deputy general manager of the strategic development centre of Zhejiang Jia Yuan Group and from December 2009 to June 2012, he was the general manager of Huzhou Xinyuan Construction Management Co., Ltd (湖州鑫源建設管理有限公司). From July 2009 to November 2009, he was the general manager of Jia Yuan Chuangsheng and from 2006 to 2008, he was the general manager of Hangzhou Yinxi Jiulong Property Development Co., Ltd (杭州銀溪九龍房地產開發有限公司). From 1998 to the end of 2005, he was the deputy general manager of Hangzhou Sanyou Property Development Co., Ltd (杭州三優房地產開發有限公司), and from 1991 to 1998, he was the construction team leader of Shanghai Branch of Ganjianyi Company (甘建一公司上海分公司). In September 1990, Mr. Wang earned a diploma in Industrial and Civil Architecture from Shanghai Architecture and Engineering College (上海建築工程學院).

Ms. Cheuk Hiu Nam

Ms. Cheuk Hiu Nam was appointed as an executive Director and a joint company secretary on July 27, 2015 and March 11, 2019, respectively. She is also a member of our Remuneration Committee. Ms. Cheuk has approximately 15 years of experience in management. She has been working as the general manager of Hong Kong Jia Yuan since January 2014. From February 2003 to November 2013, Ms. Cheuk was the Dean of Faculty of Business, the Vice President, the chairperson of the Quality Assurance Committee, the chairperson of the Student Affairs Committee, a member of the Board of Governors, a member of the Academic Board and a member of Finance Sub-Committee at Hong Kong Institute of Technology. In May 1995, Ms. Cheuk earned a bachelor degree in Business Administration from The Chinese University of Hong Kong. In December 1997, she earned a master degree of science from University of London and in June 2001, she earned a master degree of science from Pace University (New York).

Mr. Shen Xiaodong

Mr. Shen Xiaodong was appointed as a non-executive Director of the Company on February 17, 2019. Mr. Shen is the son of Mr. Shum Tin Ching, the chairman, a non-executive Director and a controlling shareholder of the Company. Mr. Shen has over 10 years of experience in the real estate

development industry. He was a vice president of the Group responsible for corporate strategy from October 2015 to February 2019. Mr. Shen was the general manager of Shanghai Dingyuan Property Development Co., Ltd. (上海定源房地產有限公司), which became a subsidiary of the Group since November 2018, from December 2007 to May 2015. Mr. Shen obtained his bachelor's degree in civil engineering from Zhejiang University City College in 2006 and his master's degree in humanities and social sciences from University of New Castle upon Tyne in 2007.

Mr. Tai Kwok Leung, Alexander

Mr. Tai Kwok Leung, Alexander was appointed as an independent non-executive Director on February 12, 2016, and is the chairman of our Audit Committee and a member of our Remuneration Committee. Mr. Tai has been working as a partner of VMS Securities Limited, a licensed corporation under the Securities and Futures Ordinance to conduct regulated activities since August 2017. Mr. Tai is an independent non-executive director, the chairman of the audit committee, and a member of the remuneration committee and nomination committee of G & M Holdings Limited (Stock Code: 6038), an independent non-executive director, the chairman of the remuneration and nomination committee and a member of the audit committee of Anhui Conch Cement Company Limited (Stock Code: 914) and an independent non-executive director, the chairman of the audit committee, a member of the remuneration committee and nomination committee of Luk Fook Holdings (International) Limited (Stock Code: 590) and independent non-executive director and a member of each of the remuneration committee and audit committee of AAG Energy Holdings Limited (Stock Code: 2686), which are all listed on the Main Board of the Hong Kong Stock Exchange. Mr Tai was formerly a non-executive director of First Credit Finance Group Limited (Stock Code: 8215), which is listed on the GEM of the Hong Kong Stock Exchange, from September 2010 to April 2013 and an independent non-executive director of Honghua Group Limited (Stock Code: 196), which is listed on the Main Board of the Hong Kong Stock Exchange, from January 2008 to March 2014. Mr. Tai was also formerly a director of Investec Capital Asia Limited from August 2007 to July 2017. Mr. Tai is a member of Shandong Committee of the Chinese People's Political Consultative Conference. In April 1982, he earned a bachelor degree in Commerce and Administration from the Victoria University of Wellington in New Zealand. In October 1983, he became an associate member of the Hong Kong Institute of Certified Public Accountants.

Dr. Cheung Wai Bun, Charles

Dr. Cheung Wai Bun, Charles was appointed as an independent non-executive Director on February 12, 2016, and is the chairman of our Remuneration Committee and a member of our Audit Committee and our Nomination Committee. Dr. Cheung is currently working as a director and the vice chairman of the executive committee of Metropolitan Bank (China) Ltd (首都銀行(中國)有限公司), a council member of the Hong Kong Institute of Directors, a member of Hospital Governing Committee of both Kowloon Hospital and Hong Kong Eye Hospital, and a member of Regional Advisory Committee of Kowloon, Hospital Authority. Currently, Dr. Cheung is chairman of Joy Harvest International Limited. Dr. Cheung is an independent non-executive director of Pioneer Global Group Limited (stock code: 224), Universal Technologies Holdings Limited (stock code: 1026), China Financial International Investments Limited (stock code: 721), Modern Dental Group Limited (stock code: 3600), China Taifeng Beddings Holdings Limited (Stock Code: 873) and Fullsun International Holdings Group Co., Limited (formerly known as "U-RIGHT International Holdings Limited") (Stock Code: 627), which are all listed on the Main Board of the Hong Kong Stock Exchange. He is also a non-executive director of Galaxy Entertainment Group Limited (stock code: 27), which is listed on the Main Board of the Hong Kong Stock Exchange, and an independent non-executive director of Yin He Holdings Limited (stock code: 8260), which is listed on the GEM of the Hong Kong Stock Exchange. Dr. Cheung was formerly a director and supervisor of audit committee of China Resources Bank of Zhuhai Co., Ltd. from December 2009 to January 2016 and an independent non-executive director of Shanghai Electric Group Company Limited (stock code: 2727 (Hong Kong) from November 2007 to February 2014 and A Stock 601727 (Shanghai)) from April 2005 to February 2014, which is listed on the Main Board of the Hong Kong Stock Exchange and Shanghai Stock Exchange. He was an independent non-executive director and Co-chairman of the board of directors of Grand T G Gold Holdings Limited (stock code: 8299), which is

listed on the GEM of the Hong Kong Stock Exchange, from July 2009 to March 2016. He was an executive director and the chairman of the board of directors of Roma Group Limited (Stock Code: 8072), from June 2017 to December 2017, which is listed on the GEM of the Hong Kong Stock Exchange. Dr. Cheung earned a bachelor of science degree in Accounting and Finance and a master degree in Business Administration from New York University U.S.A. in February 1960 and June 1962, respectively. In 1984, Dr. Cheung earned an honorary doctor's degree from John Dewey University of USA.

Mr. Gu Yunchang

Mr. Gu Yunchang, also known as Gu Yongchuang, was appointed as an independent non-executive Director on February 12, 2016 and is a member of our Audit Committee and our Nomination Committee. From 2006 to May 2013, Mr. Gu was the vice chairman of the China Real Estate Research Association (中國房地產研究會) and from 1998 to 2006, he was the vice chairman and secretary-general of the China Real Estate Association (中國房地產業協會). From December 1988 to July 1998, Mr. Gu was the deputy director at the Policy Research Centre of Ministry of Construction of the PRC (中華人民共和國建設部政策研究中心) and he was the Deputy Division Head and Division Head at Urban Residence Bureau of Ministry of Construction (中華人民共和國建設部城市住房局) in 1982 and 1985, respectively. Currently, Mr. Gu is an independent non-executive director of CIFI Holdings (Group) Co., Ltd. (stock code: 884) and Sunshine 100 China Holdings Ltd. (stock code: 2608), which are all listed on the Main Board of the Hong Kong Stock Exchange. He is also an independent non-executive director of COFCO Property (Group) Co., Ltd. (stock code: 31) and Zhejiang Yasha Decoration Co., Ltd. (stock code: 2375), which are all listed on the Shenzhen Stock Exchange. Formerly, Mr. Gu was an independent non-executive director of E-House (China) Holdings Limited (stock code: EJ), which is listed on the New York Stock Exchange, from August 2008 to March 2014 and an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Sino-Ocean Group Holding Limited (formerly known as “Sino-Ocean Land Holdings Limited”) (stock code: 3377), which is listed on the Main Board of the Hong Kong Stock Exchange, from June 2007 to March 2016. Mr. Gu graduated from Tongji University, specializing in Urban Planning, in July 1966.

Our Board Committees

There are three Board committees: our Audit Committee, our Remuneration Committee and our Nomination Committee.

Audit Committee

Our audit committee was established on February 12, 2016. Our audit committee's specific duties include reviewing and supervising our financial reporting process and internal control system, nominating and monitoring external auditors and providing advice and comments to our Board on matters related to corporate governance. As of the date of this offering memorandum, the members of our audit committee are as follows:

| <u>Name</u> | <u>Title</u> | <u>Position in Audit Committee</u> |
|-------------------------------------|------------------------------------|------------------------------------|
| Tai Kwok Leung, Alexander | Independent Non-executive Director | Chairman |
| Gu Yunchang | Independent Non-executive Director | Member |
| Cheung Wai Bun, Charles | Independent Non-executive Director | Member |

Remuneration Committee

Our remuneration committee was established on February 12, 2016. Our remuneration committee's specific duties include making recommendations on the remuneration of our senior management and recommending members of our Board. As of the date of this offering memorandum, the members of our remuneration committee are as follows:

| Name | Title | Position in Remuneration Committee |
|-------------------------------------|--------------------------------------|---|
| Cheung Wai Bun, Charles | Independent Non-executive Director | Chairman |
| Tai Kwok Leung, Alexander | Independent Non-executive Director | Member |
| Zhang Yi | Vice Chairman and Executive Director | Member |

Nomination Committee

Our nomination committee was established on February 12, 2016. Our nomination committee's specific duties include making recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management. As of the date of this offering memorandum, the members of our nomination committee are as follows:

| Name | Title | Position in Nomination Committee |
|-----------------------------------|-------------------------------------|---|
| Shum Tin Ching | Chairman and Non-executive Director | Chairman |
| Cheung Wai Bun, Charles | Independent Non-executive Director | Member |
| Gu Yunchang | Independent Non-executive Director | Member |

Senior Management

Overview

As of the date of this offering memorandum, the members of our senior management are as follows:

| Name | Age | Title |
|-----------------------------|------------|---|
| Mr. Zhang Xiang | 36 | Chief Financial Officer of the Group |
| Mr. Ma Mingya | 48 | President of Jiayuan Shanghai Group |
| Mr. Deng Wenping | 53 | President of Jiayuan Anhui Group |
| Ms. Qiu Xiangming | 44 | Vice President of Jiayuan Ning Gang Group |

Mr. Zhang Xiang

Mr. Zhang Xiang is the chief financial officer of the Group primarily responsible for the overall financial operation of the Group. Mr. Zhang has over 14 years of experience in the fields of audit, accounting, financial management as well as acquisition and merger. Prior to joining the Group in February 2019, he served Ernst & Young from 2006 to 2015 with his last position as a senior manager. Mr. Zhang served as the chief financial officer of Shenzhen Grandland Group Co., Ltd. (深圳廣田集團股份有限公司), an enterprise listed on the Shenzhen Stock Exchange (stock code: 002482.SZ), from 2016 to 2018. Meanwhile, from 2017 to 2019, he served as the chairman and executive director of Guangrong Financing Guarantee Co., Ltd. (廣融融資擔保有限公司) and Guangrong Microfinance Co., Ltd. (廣融小額貸款有限公司).

Mr. Zhang graduated from Shanghai University of Finance and Economics (上海財經大學) and obtained a double bachelor's degree. He became a member of the Chinese Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants in 2010 and 2011, respectively.

Mr. Ma Mingya

Mr. Ma Mingya is the assistant executive officer of Jiayuan International Group Limited and the president of Shanghai Jiayuan Hucheng Property Group Co., Ltd. (上海佳源滬城房地產集團有限公司)(known as Jiayuan Shanghai Group for short). Mr. Ma has approximately 23 years of experience in the real estate development industry and has been involved in the Group's business since July 2019. Mr. Ma is primarily responsible for management and overseeing the day-to-day operation and expansion of the Group's real estate development projects located in and around Shanghai. Mr. Ma also serves as the legal person and chairman of Shanghai Xiangyuan Property Co., Ltd. (上海祥源房地產有限公司), the legal person and chairman of Xingzhou Jiayuan Property Development Co., Ltd. (星洲佳源房地產開發有限公司) in Yancheng, Jiangsu Province and the legal person and executive director of Yancheng Xiangyuan Property Co., Ltd. (鹽城祥源房地產有限公司), respectively.

Mr. Ma graduated from Nanjing University (南京大學) in June 2009 and obtained a master's degree in project management. He also obtained a degree in Executive Master of Business Administration (EMBA) at China Europe International Business School (中歐國際工商學院) in October 2011. He has been recognised as a senior engineer by Human Resource Department of Jiangsu Province in the PRC (中國江蘇省人事廳) since December 2009.

Mr. Deng Wenping

Mr. Deng Wenping has served as the president of Anhui Jiayuan Property Group Co., Ltd. (安徽佳源房地產集團有限公司)(known as Jiayuan Anhui Group for short), primarily responsible for management and overseeing the regional property development projects in Anhui Province and Hubei Province. Mr. Deng has approximately 13 years of experience in the real estate development industry. He served as the general manager of Qijiang County Guangyuan Real Estate Development Co., Ltd. (廬江縣廣源置業發展有限公司)(Qijiang Guangyuan) from January 2008 to December 2012. From August 2012 to December 2012, he was responsible for the preliminary preparation work for Jiayuan Anhui project development. He served as the general manager of Bengbu Mingyuan Real Estate Development Company Limited (蚌埠明源房地產開發有限公司)(Bengbu Mingyuan) from January 2013 to October 2017 and the vice president of Jiayuan Anhui Group from November 2017 to August 2018. Prior to this, Mr. Deng had 20 years of experience in the banking industry where he successively held the posts of the director of real estate credit loan department, the general manager of corporation department and the president of the sub-branch at Chaohu Branch of China Construction Bank.

Mr. Deng graduated from the discipline of civil engineering in Chongqing University (重慶大學) in July 1989. He obtained a graduation certificate in an advanced seminar course on chief executive officer (CEO) in the University of Science and Technology of China (中國科學技術大學) in April 2015.

Ms. Qiu Xiangming

Ms. Qiu Xiangming is currently the vice president of Ning Gang Jia Yuan Property Group Co., Ltd. (寧港佳源房地產集團有限公司)(known as Jia Yuan Ning Gang Group for short). Ms. Qiu had served as the assistant executive officer and the general manager of operation management center for Jia Yuan Ning Gang Group from January 2018 to May 2019, and was promoted to the position of vice president of the Group in May 2019. She served as the general manager of Changzhou Jinyuan from February 2014 to March 2018 and has been involved in the Group's business since January 2011. Ms. Qiu is primarily responsible for management and overseeing the day-to-day operation of the Group's real estate development projects located in Changzhou, Jiangsu Province. Ms. Qiu has approximately 17 years of experience in the real estate development industry. She worked as the manager of Zhejiang Jia Yuan Group from January 2011 to August 2013. Ms. Qiu acted as the vice general manager of Changzhou Jinyuan from August 2013 to December 2014 and was subsequently promoted to the position of general manager in December 2014 and has since acted as the general manager of Changzhou Jinyuan. Ms. Qiu also participated in the preparation for and was responsible for the day-to-day management of Xueyan Jiayuan Central Plaza, the Group's property development project in

Changzhou. Formerly, Ms. Qiu worked as the deputy general manager of Changzhou Tian Yu from January 2010 to December 2010 and a director of Changzhou Zhongchuang Real Estate Development Co., Ltd. (常州中創房地產開發有限公司), a property developer in the PRC, from December 2003 to December 2009.

Ms. Qiu graduated from Changzhou Institute of Technology (常州工學院) and obtained a diploma in Accounting in January 2008. She was recognised as a junior accountant by the Finance Department of the PRC since May 2006.

Compensation

The aggregate amount of fees, salaries and other allowances, performance related bonuses and retirement benefit scheme contributions paid by us to our Directors during the years ended December 31, 2018, 2019 and 2020 were approximately RMB5.5 million, RMB11.2 million and RMB11.1 million (US\$1.7 million), respectively.

Share Option Scheme

We adopted a share option scheme (the “Scheme”) on February 12, 2016. Under the Scheme, our Directors may grant options to subscribe for our Company’s shares to (i) eligible employees, including directors of our Company and its subsidiaries, (ii) any advisers, consultants, suppliers, customers and agents of our Company and its subsidiaries or (iii) any other persons who our Directors expect to contribute to our Group. The Scheme will expire on March 8, 2026.

The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of our Company may not exceed 180,000,000. The number of shares issued and to be issued in respect of which options may be granted to any individual in any one year may not exceed 1.0% of the shares of our Company in issue at any point in time, without prior approval from our shareholders.

Our Directors will determine the period during which an option may be exercised. The exercise price is determined by our Directors and will not be less than the higher of (i) the closing price of our Company’s shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant and (iii) the nominal value of our Company’s shares.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders' Interests

So far as our Directors are aware, as of December 31, 2020, the interests or short positions of substantial shareholders (other than our Directors and chief executive) in our shares and underlying shares which would fall to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by us according to Section 336 of the SFO were as follows:

| Name of Substantial Shareholder | Nature of interest | Number of shares or securities held ⁽¹⁾ | Percentage of interest in the Company ⁽¹¹⁾ |
|--|---|--|---|
| Mr. Shum Tin Ching | Interest of a controlled corporation | 2,756,308,418 ⁽²⁾ shares (L) | 67.96% |
| | Beneficial owner | 72,001,718 ⁽³⁾ shares (L) | 1.78% |
| | Interest of a controlled corporation | 500,000,000 ^{(2),(4)} shares (S) | 12.33% |
| Ms. Wang Xinmei ⁽⁴⁾ | Interest of spouse | 2,828,310,136 shares (L) | 69.74% |
| | Interest of spouse | 500,000,000 ⁽⁷⁾ shares (S) | 12.33% |
| Galaxy Emperor Limited ⁽⁵⁾ | Interest of a controlled corporation | 2,756,308,418 shares (L) | 67.96% |
| | Interest of a controlled corporation | 500,000,000 ⁽⁷⁾ shares (S) | 12.33% |
| China Jiayuan Group Limited ⁽⁵⁾ | Interest of a controlled corporation | 2,756,308,418 shares (L) | 67.96% |
| | Interest of a controlled corporation | 500,000,000 ⁽⁷⁾ shares (S) | 12.33% |
| Mingyuan Investment ⁽⁶⁾ | Beneficial owner | 2,756,308,418 shares (L) | 67.96% |
| | Beneficial owner | 500,000,000 ⁽⁷⁾ shares (S) | 12.33% |
| CCB International Overseas Limited ^{(8),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| Design Time Limited ⁽⁹⁾ | Beneficial owner | 26,228,771 shares (L) | 0.65% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |
| CCB International (Holdings) Limited ^{(8),(9),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |
| CCB Financial Holdings Limited ^{(8),(9),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |
| CCB International Group Holdings Limited ^{(8),(9),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |
| China Construction Bank Corporation ^{(8),(9),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |
| Central Huijin Investment Ltd. ^{(8),(9),(10)} | Person having a security interest in shares | 500,000,000 ⁽⁷⁾ shares (L) | 12.33% |
| | Interest of a controlled corporation | 26,228,771 shares (L) | 0.65% |

1) The letters “L” and “S” denote a person’s/an entity’s long position and short position in the shares of the Company respectively.

- (2) The disclosed interest represents an interest in the Company held by Mingyuan Group Investment Limited (“Mingyuan Investment”), which is indirectly wholly-owned by Mr. Shum Tin Ching. Therefore, Mr. Shum Tin Ching is deemed to be interested in Mingyuan Investment’s interest in the Company by virtue of the SFO.
- (3) These shares are wholly owned by Mr. Shum Tin Ching as a beneficial owner.
- (4) Ms. Wang Xinmei, the spouse of Mr. Shum Tin Ching, is deemed to be interested in Mr. Shum Tin Ching’s interest in the Company.
- (5) China Jiayuan Group Limited is a wholly-owned subsidiary of Galaxy Emperor Limited, which is wholly-owned by Mr. Shum Tin Ching.
- (6) These shares are held by Mingyuan Investment, which is wholly-owned by China Jiayuan Group Limited.
- (7) On December 31, 2019, Mingyuan Investment entered into a release agreement with CCB International Overseas Limited, pursuant to which, CCB International Overseas Limited agreed to discharge and release 600,000,000 shares out of 2,712,244,324 shares held by Mingyuan Investment in favour of CCB International Overseas Limited as one of the collaterals for a secured note issued by a company indirectly wholly owned by Mr. Shum Tin Ching to CCB International Overseas Limited on June 29, 2017. On the same day, Mingyuan Investment entered into a share mortgage agreement with CCB International Overseas Limited, pursuant to which, Mingyuan Investment agreed to pledge 500,000,000 shares out of 2,712,244,324 shares held by it in favour of CCB International Overseas Limited as one of the collaterals for a loan issued to the Company.
- (8) Based on the public records, these security interest in shares are held by CCB International Overseas Limited, which is a wholly-owned subsidiary of CCB International (Holdings) Limited.
- (9) Design Time Limited is a wholly-owned subsidiary of CCBI Investments Limited, which is a wholly-owned subsidiary of CCB International (Holdings) Limited.
- (10) CCB International (Holdings) Limited is a wholly-owned subsidiary of CCB Financial Holdings Limited, which is in turn a wholly-owned subsidiary of CCB International Group Holdings Limited. CCB International Group Holdings Limited is a wholly-owned subsidiary of China Construction Bank Corporation, which is owned as to 57.11% by Central Huijin Investment Ltd..
- (11) As of December 31, 2020, the total number of issued shares of the Company was 4,055,734,623.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2020, our total bank loans amounted to RMB7,271.3 million (US\$1,114.4 million). In addition, we have also issued corporate bonds and senior notes from time to time. As of December 31, 2020, we had a total amount of RMB8,753.0 million (US\$1,341.5 million) of senior notes outstanding. Subsequent to December 31, 2020, we issued the January 2021 Notes. We set forth below a summary of the material terms and conditions of our material loans, indebtedness and other obligations.

ONSHORE FINANCING

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks and trust companies. These loans typically are project loans to finance the construction or the operation of investment properties of our projects (the “project loans”) and terms mostly ranging from one to three years, which generally correspond to the construction periods or the operation of investment properties of the particular projects. Certain of our PRC project loans require prepayment of the loan if a certain percentage of GFA of the relevant project has been sold.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate *per annum*. Floating interest rates generally are subject to review by the banks annually. 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 project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders’ prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties with the assets funded by the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations or change the company’s status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts;
- reduce their registered capital;
- transfer part or all of the liabilities under the loans to a third party; and
- prepay the loan.

Dividend Restriction

Pursuant to the project loans with certain PRC banks, primarily including China Minsheng Bank and Bank of Communications Limited, some of our PRC subsidiaries also agreed not to distribute any dividends:

- if the borrower is experiencing a sustained event of default;
- if the borrower is unable to repay principal and interest in accordance with the relevant repayment schedule;
- if the borrowers' after-tax net profit is nil or negative or insufficient to cover losses from the previous accounting periods; or
- if the borrower's profit before tax in the relevant accounting period has not been used to pay off the principal, the interest for the current or next interest payment period, or other related expenses due in that accounting period.

Guarantee and security

Certain of our PRC subsidiaries and associates have entered into guarantee or security agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries and associates have guaranteed or provided security including property mortgage, pledge of accounts receivable and share pledge for all liabilities of the subsidiary borrowers under these project loans. We also act as a guarantor in relation to certain of these project loans.

OFFSHORE FINANCING

ICBC Facility

We have entered into a facility agreement with ICBC as agent and other finance parties under the ICBC Facility dated November 28, 2017. The ICBC Facility has a term of 60 months commencing from the date of the facility agreement. As of December 31, 2020, HK\$1,984.2 million in principal amount of the loan was outstanding.

Guarantee and security

Certain subsidiaries and associates have guaranteed or provided security including property mortgage, pledge of accounts receivable and share pledge for all liabilities of the subsidiary borrowers under our ICBC Facility. We also act as a guarantor under our ICBC Facility.

Interest

The principal amount outstanding under the ICBC Facility bears interest at a floating rate calculated with reference to the Hong Kong Interbank Offered Rate.

Covenants

The ICBC Facility contains customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net borrowings and interest coverage ratios.

Events of default

The ICBC Facility contains 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.

May 2022 Notes

On May 2, 2019, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$225,000,000 of the May 2022 Notes (the “May 2022 Indenture”). A portion of the May 2022 Notes was used to exchange for all of the outstanding October 2019 Notes. On August 29, 2019, we issued an additional aggregate principal amount of US\$25,000,000 of the May 2022 Notes. On October 30, 2022, we repurchased the May 2022 Notes in an aggregate principal amount of US\$135,000,000. As of the date of this offering memorandum, US\$115,000,000 principal amount of the May 2022 Notes is outstanding.

Guarantee

The obligations pursuant to the October 2020 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “May 2022 Subsidiary Guarantors”). We refer to these guarantees as the May 2022 Subsidiary Guarantees. Each of the May 2022 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 May 2022 Notes.

Collateral

In order to secure the obligations under the May 2022 Notes, the Company agreed, for the benefit of the holders of the May 2022 Notes, to pledge the capital stock of each May 2022 Subsidiary Guarantor (collectively, the “May 2022 Collateral”) in order to secure the obligations of the Company under the May 2022 Notes and the May 2022 Subsidiary Guarantors under the relevant May 2022 Subsidiary Guarantee. The May 2022 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the May 2022 Collateral will be shared on a *pari passu* basis by the holders of the May 2022 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The May 2022 Notes bear an interest rate of 11.375% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the May 2022 Indenture contain 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 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 May 2022 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the May 2022 Indenture or the holders of at least 25% of the outstanding May 2022 Notes may declare the May 2022 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding May 2022 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding May 2022 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

The maturity of the May 2022 Notes is May 2, 2022.

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the May 2022 Notes at a redemption price equal to 100% of the principal amount of the May 2022 Notes, subject to certain exceptions.

Holders of the May 2022 Notes may, at their option, require us to repurchase for cash all of their May 2022 Notes, or any portion thereof, on May 2, 2021, at the repurchase price equal to 100% of the principal amount of such May 2022 Notes to be repurchased.

Intercreditor Agreement

On May 2, 2019, Citicorp International Limited, as trustee under the May 2022 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

March 2022 Notes

On July 11, 2019, December 3, 2019 and February 24, 2020, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$322,500,000 of the March 2022 Notes. On October 30, 2022, we repurchased the March 2022 Notes in an aggregate principal amount of US\$60,000,000. On February 5, 2021, we repurchased the March 2022 Notes in an aggregate principal amount of US\$55,755,000. On March 11, 2021, we further repurchased the March 2022 Notes in an aggregate principal amount of US\$61,538,000 following the exercise of a put option pursuant to the terms of the March 2022 Notes. As of the date of this offering memorandum, US\$145,207,000 principal amount of the May 2022 Notes is outstanding.

Guarantee

The obligations pursuant to the March 2022 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “March 2022 Subsidiary Guarantors”). We refer to these guarantees as the March 2022 Subsidiary Guarantees. Each of the March 2022 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 March 2022 Notes.

Collateral

In order to secure the obligations under the March 2022 Notes, the Company agreed, for the benefit of the holders of the March 2022 Notes, to pledge the capital stock of each March 2022 Subsidiary Guarantor (collectively, the “March 2022 Collateral”) in order to secure the obligations of the Company under the March 2022 Notes and the March 2022 Subsidiary Guarantors under the relevant March 2022 Subsidiary Guarantee. The March 2022 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the March 2022 Collateral will be shared on a *pari passu* basis by the holders of the March 2022 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The March 2022 Notes bear an interest rate of 13.75% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the March 2022 Indenture contain 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 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 March 2022 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the March 2022 Indenture or the holders of at least 25% of the outstanding March 2022 Notes may declare the March 2022 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding March 2022 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding March 2022 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the March 2022 Notes at a redemption price equal to 100% of the principal amount of the March 2022 Notes, subject to certain exceptions.

Holders of the March 2022 Notes may, at their option, require us to repurchase for cash all of their March 2022 Notes, or any portion thereof, on March 11, 2021, at the repurchase price equal to 102.402% of the principal amount of such March 2022 Notes to be repurchased.

Intercreditor Agreement

On July 11, 2019, Citicorp International Limited, as trustee under the March 2022 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

February 2023 Notes

On October 18, 2019, December 3, 2019, January 21, 2020 and February 6, 2020, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$327,500,000 of the February 2023 Notes. As of the date of this offering memorandum, all US\$327,500,000 of the principal amount of the February 2023 Notes remained outstanding.

Guarantee

The obligations pursuant to the February 2023 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “February 2023 Subsidiary Guarantors”). We refer to these guarantees as the February 2023 Subsidiary Guarantees. Each of the February 2023 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 February 2023 Notes.

Collateral

In order to secure the obligations under the February 2023 Notes, the Company agreed, for the benefit of the holders of the February 2023 Notes, to pledge the capital stock of each February 2023 Subsidiary Guarantor (collectively, the “February 2023 Collateral”) in order to secure the obligations of the Company under the February 2023 Notes and the February 2023 Subsidiary Guarantors under the relevant February 2023 Subsidiary Guarantee. The February 2023 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the February 2023 Collateral will be shared on a *pari passu* basis by the holders of the February 2023 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The February 2023 Notes bear an interest rate of 13.75% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the February 2023 Indenture contain 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 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 February 2023 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the February 2023 Indenture or the holders of at least 25% of the outstanding February 2023 Notes may declare the February 2023 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding February 2023 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding February 2023 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the February 2023 Notes at a redemption price equal to 100% of the principal amount of the February 2023 Notes, subject to certain exceptions.

Holders of the February 2023 Notes may, at their option, require us to repurchase for cash all of their February 2023 Notes, or any portion thereof, on October 18, 2021, at the repurchase price equal to 102.795% of the principal amount of such February 2023 Notes to be repurchased.

Intercreditor Agreement

On October 18, 2019, Citicorp International Limited, as trustee under the February 2023 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

June 2021 Notes

On June 24, 2020 and July 21, 2020, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$150,000,000 of the June 2021 Notes. As of the date of this offering memorandum, all US\$150,000,000 of the principal amount of the June 2021 Notes remained outstanding.

Guarantee

The obligations pursuant to the June 2021 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “June 2021 Subsidiary Guarantors”). We refer to these guarantees as the June 2021 Subsidiary Guarantees. Each of the June 2021 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 June 2021 Notes.

Collateral

In order to secure the obligations under the June 2021 Notes, the Company agreed, for the benefit of the holders of the June 2021 Notes, to pledge the capital stock of each June 2021 Subsidiary Guarantor (collectively, the “June 2021 Collateral”) in order to secure the obligations of the Company under the June 2021 Notes and the June 2021 Subsidiary Guarantors under the relevant June 2021 Subsidiary Guarantee. The June 2021 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the June 2021 Collateral will be shared on a *pari passu* basis by the holders of the June 2021 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The June 2021 Notes bear an interest rate of 11.75% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the June 2021 Indenture contain 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 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 June 2021 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the June 2021 Indenture or the holders of at least 25% of the outstanding June 2021 Notes may declare the June 2021 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding June 2021 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding June 2021 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the June 2021 Notes at a redemption price equal to 100% of the principal amount of the June 2021 Notes, subject to certain exceptions.

Intercreditor Agreement

On June 24, 2020, Citicorp International Limited, as trustee under the June 2021 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

April 2023 Notes

On October 8, 2020 and November 12, 2020, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$300,000,000 of the April 2023 Notes. As of the date of this offering memorandum, all US\$300,000,000 of the principal amount of the April 2023 Notes remained outstanding.

Guarantee

The obligations pursuant to the April 2023 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “April 2023 Subsidiary Guarantors”). We refer to these guarantees as the April 2023 Subsidiary Guarantees. Each of the April 2023 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 April 2023 Notes.

Collateral

In order to secure the obligations under the April 2023 Notes, the Company agreed, for the benefit of the holders of the April 2023 Notes, to pledge the capital stock of each April 2023 Subsidiary Guarantor (collectively, the “April 2023 Collateral”) in order to secure the obligations of the Company under the April 2023 Notes and the April 2023 Subsidiary Guarantors under the relevant April 2023 Subsidiary Guarantee. The April 2023 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the April 2023 Collateral will be shared on a *pari passu* basis by the holders of the April 2023 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The April 2023 Notes bear an interest rate of 12.5% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the April 2023 Indenture contain 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 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 April 2023 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the April 2023 Indenture or the holders of at least 25% of the outstanding April 2023 Notes may declare the April 2023 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding April 2023 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding April 2023 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the April 2023 Notes at a redemption price equal to 100% of the principal amount of the April 2023 Notes, subject to certain exceptions.

Intercreditor Agreement

On October 8, 2020, Citicorp International Limited, as trustee under the April 2023 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

October 2022 Notes

On October 30, 2020, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$200,000,000 of the October 2022 Notes. As of the date of this offering memorandum, all US\$200,000,000 of the principal amount of the October 2022 Notes remains outstanding.

Guarantee

The obligations pursuant to the October 2022 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the “October 2022 Subsidiary Guarantors”). We refer to these guarantees as the October 2022 Subsidiary Guarantees. Each of the October 2022 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 October 2022 Notes.

Collateral

In order to secure the obligations under the October 2022 Notes, the Company agreed, for the benefit of the holders of the October 2022 Notes, to pledge the capital stock of each October 2022 Subsidiary Guarantor (collectively, the “October 2022 Collateral”) in order to secure the obligations of the Company under the October 2022 Notes and the October 2022 Subsidiary Guarantors under the relevant October 2022 Subsidiary Guarantee. The October 2022 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the October 2022 Collateral will be shared on a *pari passu* basis by the holders of the October 2022 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The October 2022 Notes bear an interest rate of 12% per annum, payable semi-annually in arrear.

Covenant

Subject to certain conditions and exceptions, the October 2022 Indenture contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issue disqualified or preferred stock;
- making investments or other specified restricted payments;
- Issuing or selling capital stock of restricted subsidiaries;
- Guaranteeing indebtedness of restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- engaging in any business other than permitted businesses;

- entering into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with certain shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The October 2022 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the October 2022 Indenture or the holders of at least 25% of the outstanding October 2022 Notes may declare the October 2022 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding October 2022 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding October 2022 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the October 2022 Notes at a redemption price equal to 100% of the principal amount of the October 2022 Notes, subject to certain exceptions.

Intercreditor Agreement

On October 30, 2020, Citicorp International Limited, as trustee under the October 2022 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

January 2021 Notes

On January 21, 2021, we entered into an indenture pursuant to which we issued an aggregate principal amount of US\$300,000,000 of the January 2021 Notes. As of the date of this offering memorandum, all US\$300,000,000 of the principal amount of the January 2021 Notes remains outstanding.

Guarantee

The obligations pursuant to the January 2021 Notes are guaranteed by Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited (the "January 2021 Subsidiary Guarantors"). We refer to these guarantees as the January 2021 Subsidiary Guarantees. Each of the January 2021 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 January 2021 Notes.

Collateral

In order to secure the obligations under the January 2021 Notes, the Company agreed, for the benefit of the holders of the January 2021 Notes, to pledge the capital stock of each January 2021 Subsidiary Guarantor (collectively, the "January 2021 Collateral") in order to secure the obligations of

the Company under the January 2021 Notes and the January 2021 Subsidiary Guarantors under the relevant January 2021 Subsidiary Guarantee. The January 2021 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the January 2021 Collateral will be shared on a *pari passu* basis by the holders of the January 2021 Notes and the holders of permitted *pari passu* secured indebtedness.

Interest

The January 2021 Notes bear an interest rate of 12.5% per annum, payable semi-annually in arrears.

Covenant

Subject to certain conditions and exceptions, the January 2021 Indenture contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issue disqualified or preferred stock;
- making investments or other specified restricted payments;
- Issuing or selling capital stock of restricted subsidiaries;
- Guaranteeing indebtedness of restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- engaging in any business other than permitted businesses;
- entering into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with certain shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The January 2021 Indenture contains certain customary events of default, including default in the payment of principal or premium when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the January 2021 Indenture or the holders of at least 25% of the outstanding January 2021 Notes may declare the January 2021 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding January 2021 Notes at a purchase price equal to 101% of their principal amount.

Delisting Put Option

Upon the occurrence of a delisting event, we will make an offer to repurchase all outstanding January 2021 Notes at a purchase price equal to 101% of their principal amount.

Maturity and Redemption

If we become obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax laws, we may redeem the January 2021 Notes at a redemption price equal to 100% of the principal amount of the January 2021 Notes, subject to certain exceptions.

Intercreditor Agreement

On January 21, 2021, Citicorp International Limited, as trustee under the January 2021 Notes, executed a supplement to the Intercreditor Agreement to become a secured party under the Intercreditor Agreement.

Other Obligations

We have provided certain guarantees in connection with borrowing and other arrangements of certain of our joint ventures, as described further below. Even though such contingent liabilities are not considered indebtedness of our Group in our consolidated financial statements, they are nevertheless treated as Indebtedness of our Company under the Indenture and the indentures of our various senior notes.

Guarantees

As of December 31, 2020, the Group had provided guarantees amounting to approximately RMB10,776.3 million (US\$1,651.5 million) in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties.

Our guarantees contain customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth and consolidated net borrowings.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “**Company**” refers only to Jiayuan International Group 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, Citicorp International Limited, as trustee (the “**Trustee**”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.

Copies of the Indenture, any supplemental indenture to the Indenture, and documents furnished to the Trustee and any Agent pursuant to the terms of the Indenture will be available after the Original Issue Date to the Holders upon request and may be sent to the Holders through electronic mail on proof of ownership satisfactory to the Trustee.

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 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 on a senior basis, subject to the limitations described below under the caption “*The Subsidiary Guarantees and JV Subsidiary Guarantees*” and in “*Risk Factors – Risks Relating to the Notes*”;
- effectively subordinated to the secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); 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 Notes*,” the Notes will be secured by a pledge of the Collateral as described below under the caption “– Security” and:

- will be secured by a first priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement and shared on a *pari passu* basis with the holders of the Existing Notes and any holders of Permitted *Pari Passu* Secured Indebtedness); and

- will rank effectively senior in right of payment to unsecured obligations of the Company to the extent of the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on February 17, 2024, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 11.0% 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 February 17 and August 17 of each year (each, an “**Interest Payment Date**”), commencing August 17, 2021, except that the first payment of interest, to be made on August 17, 2021, will be in respect of the period from and including May 17, 2021 to but excluding August 17, 2021. Interest on the Notes will be paid to the Holders of record at the close of business on February 2 or August 2 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 (as defined below) 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. However, the Company may acquire Notes by means other than redemption or repurchase, in the open market or by tender or by any other means, in accordance with applicable securities laws, so long as such acquisition does not otherwise violate the terms of the Indenture or the Security Documents or the Intercreditor Agreement, if any. All Notes that are purchased or otherwise redeemed by the Company will be cancelled and will not be reissued.

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 and Transfer 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 additional interest on the Notes shall accrue for the period after such date if payment is made on such next succeeding Business Day.

The Indenture will allow 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 will initially be the specified office of the Paying and Transfer Agent located at Citibank, N.A., Dublin Branch, Ground Floor, 1 North Wall Quay, Dublin 1, Ireland), 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 maintained by the Registrar. 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 and the JV Subsidiary Guarantees

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their respective 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 repaid or restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), as the case may be, are required to be made in U.S. dollars.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC (the "**PRC Non-Guarantor Subsidiaries**") and the Original Issue Date Non-Guarantors (as defined below). The Subsidiary Guarantors are holding companies that do not have significant operations.

The initial Subsidiary Guarantors will be Jiayuan Investment Management Limited, Hong Kong Jia Yuan Holdings Limited and Guo Xiang Property Co., Limited.

Other than the initial Subsidiary Guarantors, none of the Company's other Restricted Subsidiaries organized outside the PRC as of the Original Issue Date (collectively, the "**Original Issue Date Non-Guarantors**") will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date. In addition, none of the existing or future Restricted Subsidiaries organized under the laws of the PRC or any Exempted Subsidiary or Listed Subsidiary will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. See "*Risk Factors – 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 Non-Guarantor Subsidiaries.*"

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, the Exempted Subsidiaries and the Listed Subsidiaries), as promptly as practicable (and in any event within 30 calendar days) upon becoming a Restricted Subsidiary or, in the case of an Exempted Subsidiary or a Listed Subsidiary, ceases to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be (each such entity and each Original Issue Date Non-Guarantor, an "**Offshore Non-Guarantor Subsidiary**"); *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (other than Exempted Subsidiaries or Listed Subsidiaries) do not account for more than 20.0% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantee is referred to as a “**Future Subsidiary Guarantor**” and upon execution of the applicable supplemental indenture to the Indenture are a “**Subsidiary Guarantor.**” The Offshore Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “**Non-Guarantor Subsidiaries.**”

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries 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 Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantee provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will each become an Offshore Non-Guarantor Subsidiary and no longer Guarantee the Notes and (b) instruct the Collateral Agent to (i) discharge the pledge of the Capital Stock granted by each such Offshore Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such Offshore Non-Guarantor Subsidiary, (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), provided that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries (other than Exempted Subsidiaries or Listed Subsidiaries) do not account for more than 20.0% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Although the Indenture will contain limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries (including Restricted Subsidiaries organized under the laws of the PRC) 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 Subsidiary Guarantee of each Subsidiary Guarantor:

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

In addition, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be secured by a first priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement and shared on a *pari passu* basis with the holders of the Existing Notes and any holders of 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 to the extent of the value of the Collateral pledged by the Subsidiary Guarantor Pledgor securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantees

In the case of (A) a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and that is not an Exempted Subsidiary or a Listed Subsidiary and (iii) that is not an Offshore Non-Guarantor Subsidiary or (B) a Subsidiary Guarantor and, in each case of (A) and (B), in respect of which the Company or any Restricted Subsidiary (x) sells, whether through the sale or other disposition of existing shares or the issuance of new shares, no less than 20.0% of the Capital Stock of such Restricted Subsidiary or Subsidiary Guarantor, as the case may be, or (y) in the case of a future Restricted Subsidiary referred to in clause (A) above, is proposing to purchase the Capital Stock of such Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, to the extent permitted by applicable law, cause a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee to be provided for (a) such Restricted Subsidiary or Subsidiary Guarantor, as the case may be, and (b) the Restricted Subsidiaries of such Restricted Subsidiary or Subsidiary Guarantor, as the case may be, that are organized in any jurisdiction other than the PRC and that are not Exempted Subsidiaries or Listed Subsidiaries (and, for the avoidance of doubt, in the case of a Subsidiary Guarantor referred to in clause (B) above, such Subsidiary Guarantor may release and replace its Subsidiary Guarantee with a JV Subsidiary Guarantee), if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of a JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or the relevant Restricted Subsidiary that would have the effect of (a) prohibiting the Company or such Restricted Subsidiary from providing such JV Subsidiary Guarantee or (b) requiring the Company or such Restricted Subsidiary to deliver or keep in place a Guarantee of Indebtedness other than the Notes on terms that are more favorable to the recipients of such Guarantee than such JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is made from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the Fair Market Value of such Capital Stock;
- 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 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 Exempted Subsidiaries or Listed 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 Collateral Agent for itself and for the benefit of the 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 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).

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

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

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

Guarantee Limitations

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 such 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) the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering such 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.

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 a defeasance as described under “– *Defeasance and Discharge*;”
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with or not prohibited by the terms of the Indenture (including the covenants described under the captions “*Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*,” “*Certain Covenants – Limitation on Asset Sales*,” and “*Certain Covenants – 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 disposition are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of such Subsidiary Guarantee with a JV Subsidiary Guarantee as described above under the caption “– *The JV Subsidiary Guarantees*;” or
- in the case of a Subsidiary Guarantor or a JV Subsidiary Guarantor that becomes an Offshore Non-Guarantor Subsidiary in compliance with the terms of the Indenture.

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.

As of the date of the Indenture, all of the Company’s Subsidiaries other than the Existing Unrestricted 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.

Security

The Company has agreed, for the benefit of the Holders, to pledge and cause each initial Subsidiary Guarantor Pledgor to pledge, the Capital Stock of all Subsidiary Guarantors owned by the Company or such initial Subsidiary Guarantor Pledgor (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and the obligations of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The initial Subsidiary Guarantor Pledgors are Jiayuan Investment Management Limited and Hong Kong Jia Yuan Holdings Limited.

The Company has also agreed, for the benefit of the Holders, to pledge, and cause each Subsidiary Guarantor to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor or additional shares of Capital Stock acquired or otherwise received by the Company or such Subsidiary Guarantor of any Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, as soon as practicable (and in any event within 30 days) after such Person becoming a Subsidiary Guarantor or JV Subsidiary Guarantor or upon such additional shares of Capital Stock being acquired or received, as the case may be, 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.

None of the Capital Stock of the Non-Guarantor Subsidiaries, including any future Restricted Subsidiary that may be organized under the laws of the PRC, will be pledged on the Original Issue Date or at any time in the future. None of the JV Subsidiary Guarantors will, on the Original Issue Date or at any time in the future, provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Collateral Agent for itself and for the benefit of the Trustee.

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.**”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. 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. In the event of a sale of the Collateral, the proceeds realizable from the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company’s obligations under the Notes and the Indenture and the Subsidiary Guarantor Pledgors’ obligations under their Subsidiary Guarantees, 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 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 Notes – The value of the Collateral may not be sufficient to satisfy our obligations under the Notes.*”

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 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 described under the caption “*Certain Covenants – Limitation on Indebtedness and Preferred Stock*”; (2) the holders of such Indebtedness (or their representative) (other than any Additional Notes) are or have become party to the Intercreditor Agreement referred to below; (3) the agreements in respect of such Indebtedness contain provisions with respect to releases of Collateral and such *Pari Passu* Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the 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 or (y) no such action is necessary to make such Lien effective. The Trustee and the Collateral Agent will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Intercreditor Agreement or to the Indenture or the Security Documents 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 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.

Intercreditor Agreement

As of the Original Issue Date, the Collateral was pledged to secure the obligations of the Company and the Subsidiary Guarantors under the Existing Notes, pursuant to the terms of such Indebtedness and the security documents related thereto. On the Original Issue Date, the Trustee, acting upon written instructions from the Company, will accede to the intercreditor agreement dated April 6, 2017 (as amended and supplemented from time to time, the “**Intercreditor Agreement**”) with the Company, the Subsidiary Guarantor Pledgors, the trustee for the holders of the Existing Notes and the holders of the Permitted Pari Passu Secured Indebtedness (or their representatives). The Notes will constitute Permitted Pari Passu Secured Indebtedness under the indentures governing the Existing Notes. The Intercreditor Agreement provides, among other things, that (1) the parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent) will share equal priority and pro rata entitlement in and to the Collateral; (2) the Collateral shall only be substituted or released and Liens only be granted on the Collateral to the extent permitted under the Debt Documents; and (3) the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto with respect to the Collateral and the Indebtedness secured thereby, shall be as described in “*Enforcement of Security*” below.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any supplements, amendments or modifications thereto, and any future intercreditor agreement that may be required under the terms of the Indenture.

Enforcement of Security

The first priority Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Collateral Agent. Citicorp International Limited acts as the initial Collateral Agent under the Security Documents. The Collateral Agent, subject to the Intercreditor Agreement, will hold such Liens over the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Trustee to exercise remedies under the Security Documents (subject to the terms of the Intercreditor Agreement, if any). The Collateral Agent has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow instructions provided to it under the Indenture, the Security Documents and/or the Intercreditor Agreement and to carry out certain other duties.

The Intercreditor Agreement provides that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any Creditor Representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more Creditor Representatives, the Collateral Agent will seek the instructions of all Creditor Representatives entitled to vote in respect of such matter and will enforce the Collateral upon receiving written instructions from the Majority Creditors. “**Majority Creditors**” means one or more trustee, administrative agent or other

representative in respect of obligations under the Notes or any Permitted Pari Passu Secured Indebtedness that represent at least 50% of the aggregate principal amount of all obligations under the Notes and Permitted Pari Passu Secured Indebtedness. The Intercreditor Agreement provides that if after seeking instructions from all Creditor Representatives, the Collateral Agent does not receive instructions from a Creditor Representative within 45 days (or such shorter time as the Collateral Agent may determine in its sole discretion), such Creditor Representative will be deemed to have abstained and the Majority Creditors will be determined as though such Creditor Representative was not entitled to vote in respect of such matter. The Collateral Agent is not obligated to take any action if it identifies such conflict and no written instruction from the Majority Creditors pertaining to such conflict has been received by the Collateral Agent.

All proceeds realized from the Collateral and all amounts held by the Trustee in respect of the Collateral under the Security Documents and the Intercreditor Agreement will be applied as follows:

first, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any properly incurred fees, costs and expenses (including properly incurred expenses of its counsel) incurred in connection with the Security Documents and the Intercreditor Agreement or in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing remedies under the Intercreditor Agreement and the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent is entitled to indemnification under the Indenture, the Intercreditor Agreement or the Security Documents;

second, to the extent not reimbursed under the above paragraph, to the Trustee, the trustees for the holders of the Existing Notes, the Agents and any Creditor Representatives, to the extent necessary to reimburse the foregoing persons ratably for any properly incurred fees, costs and expenses (including properly incurred expenses of counsel) incurred in connection with the Indenture or in connection with the collection or distribution of such amounts held or realized or in connection with reasonable expenses incurred in enforcing remedies under the Debt Documents, the Intercreditor Agreement and the Security Documents and preserving the Collateral and all amounts for which the foregoing persons are entitled to indemnification under the Debt Documents, the Intercreditor Agreement and the Security Documents;

third, ratably to each of the Trustee for the benefit of the Holders to satisfy outstanding obligations under the Notes, the Indenture and the Subsidiary Guarantees of the Subsidiary Guarantors and, to the extent applicable, to the holders of any Permitted Pari Passu Secured Indebtedness (or, if applicable, their Creditor Representative) to satisfy outstanding obligations thereunder (in each case, to the extent not paid pursuant to the paragraphs above), in accordance with the terms of the relevant Debt Documents; and

fourth, any surplus remaining after such payments will be paid to the Company, the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security or pre-funding to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. None of the Trustee, the Collateral Agent or 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 Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, properly incurred costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Security Documents, except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Collateral Agent.

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

Subject to the Intercreditor Agreement, 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 legal defeasance, covenant defeasance or discharge of the Notes as provided below under the caption “– *Defeasance and Discharge*;”
- upon certain dispositions of the Collateral in compliance with the covenant described under the caption “– *Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*” or in compliance with or not prohibited by the covenant described under the caption “– *Certain Covenants – Limitation on Asset Sales*” or in accordance with the provision described 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; or
- with respect to a Subsidiary Guarantor that becomes a Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such Non-Guarantor Subsidiary.
- 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 in accordance with the terms of the Indenture.

No release of Collateral shall be effective until the Company has delivered to the Trustee and the Collateral Agent an Opinion of Counsel and an Officers’ Certificate stating that all requirements relating to such release have been complied with and that such release has been authorized by, permitted by and made in accordance with the provisions of the Indenture.

Further Issues

In accordance with the terms of the Indenture and subject to compliance with the covenants described below, including those described under the captions “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” and “– *Certain Covenants – Limitations on Liens*,” 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) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) 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.

Optional Redemption

At any time and from time to time on or after May 17, 2023, the Company may, at its option, redeem the Notes, in whole or in part, at a redemption price equal to 102.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to May 17, 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. Neither the Trustee nor the Paying Agent is responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to May 17, 2023, the Company may, at its option, 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 111.0% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date (including the aggregate principal amount of any Additional Notes on the date on which such Additional Notes were issued) 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 Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange and/or being held through any clearing system, in compliance with the requirements of the principal national securities exchange on which the Notes are listed and/or in compliance with the requirements of the clearing systems through which the Notes are held, as applicable; or
- (2) if the Notes are not listed on any national securities exchange or held through any clearing system, on a pro rata basis, by lot or by such method as the Trustee in its sole and absolute discretion deems fair and appropriate, unless otherwise required by law.

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. With respect to any certificated Note, 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.

Delisting Put Right

Not later than 30 days following a Delisting Event, the Company or a Surviving Person will make a Delisting Offer to Purchase all outstanding Notes (a “Delisting Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to but excluding the Delisting Put Date (subject to the right of Holders of record on the applicable Record Date to receive interest due on the relevant Interest Payment Date falling on or prior to the Delisting Put Date).

One Business Day prior to the Delisting Put Date, the Company shall deposit with the Paying and Transfer Agent money sufficient to pay the purchase price of all Notes or portions thereof tendered pursuant to a Delisting Offer to Purchase. On the Delisting Put Date, the Company shall (a) accept for payment all Notes or portions thereof tendered pursuant to a Delisting Offer to Purchase; and (b) 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 and Transfer Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee 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 a Delisting Offer to Purchase as soon as practicable after the Delisting Put Date. The Company will comply with all applicable securities laws and regulations, in the event that the Company is required to repurchase Notes pursuant to a Delisting Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described in the Indenture by virtue of the conflict.

The Company will agree in the Indenture that upon a Delisting Event it will timely repay all Indebtedness governed by, or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Delisting 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 Delisting Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute a Default under the Indenture.

Notwithstanding the above, the Company will not be required to make a Delisting Offer following a Delisting Event if the Company (or a third party) has made a Change of Control Offer in compliance with the requirements set forth in the Indenture with respect to such Delisting Event.

The Trustee shall not be required to take any steps to ascertain whether a Delisting Event or any event which could lead to the occurrence of a Delisting Event has occurred and shall not be liable to the Holders for any failure to do so.

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% of the principal amount thereof plus accrued and unpaid interest, if any, to but excluding the Offer to Purchase Payment Date (subject to the right of Holders of record on the applicable Record Date to receive interest due on the relevant Interest Payment Date falling on or prior to the Offer to Purchase Payment Date).

The Company will agree in the Indenture that upon a Change of Control Triggering Event it will timely repay all Indebtedness governed by, 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 may also constitute an event of default under certain other 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 then-existing financial resources of the Company, Subsidiary Guarantors and JV Subsidiary Guarantors (if any). 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 or a Delisting 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.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if (1) a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (2) the Company has made a Delisting Offer in compliance with the requirements set forth in the Indenture.

Except as described above with respect to a Change of Control Triggering Event, the Indenture will 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 of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) 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, or any jurisdiction through which payments are made (each, as applicable, 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, or interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder, to provide information concerning such Holder’s or its beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payments of principal, premium (if any) and interest on the Notes or from payments under the Subsidiary Guarantees or JV Subsidiary Guarantees (if any);
 - (d) 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 such an intergovernmental agreement or FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or

- (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); 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.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all Holders of Notes.

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 15 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and the Trustee, 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 but excluding 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 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 becomes effective (or in the case of an official position, announced) (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, in each case, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Subsidiary Guarantor, a JV Subsidiary Guarantor or a Surviving Person, 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, such Subsidiary Guarantor, such JV Subsidiary Guarantor or such Surviving Person, 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 Subsidiary Guarantor, a JV Subsidiary Guarantor or a Surviving Person, 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 giving of any notice of redemption of the Notes pursuant to the foregoing, the Company or a Surviving Person, as the case may be, will deliver to the Trustee at least 15 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or 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, such Subsidiary Guarantor, a JV Subsidiary Guarantor or a Surviving Person, 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 Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or 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, any Subsidiary Guarantor and any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and Preferred Stock and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Preferred Stock 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, a Subsidiary Guarantor or a JV Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing clause (1), 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 Guarantee;
 - (c) Indebtedness and Preferred Stock of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness and Preferred Stock permitted under clause (d) below; *provided* that such Indebtedness or Preferred Stock of any Non-Guarantor Subsidiary shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (d) Indebtedness of the Company owed to any Restricted Subsidiary and Indebtedness and Preferred Stock of any Restricted Subsidiary owed or issued to the Company or any other 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 other

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 is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;

- (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), (o), (p), (q), (r), (s), (t), (u), (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 or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is 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;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations to reduce or manage exposure of the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities;
- (g) Pre-Registration Mortgage Guarantees Incurred 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 one or more assets, real or personal property (including the lease or purchase price of land use rights) or equipment used or to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business (whether through one or more acquisitions), including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of one or more assets, real or personal property (including the lease or purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such asset, property or equipment 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 Incurred pursuant to this clause (h) (together with any refinancings thereof but excluding any Contractor Guarantee Incurred pursuant to such clauses and this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (o), (p), (q), (u), (w), (x) and (y) below (together, in each case, with any refinancings thereof) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary in the ordinary course of business 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 issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness Incurred by the Company or any Restricted Subsidiary 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 shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;
- (l) Indebtedness Incurred by the Company or any Restricted Subsidiary 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) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price to the seller of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into and becomes obligated to pay such deferred purchase price pursuant to such Staged Acquisition Agreement;
- (o) Indebtedness Incurred by the Company or any Indebtedness Incurred or Preferred Stock issued by any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary; *provided* that on the date of Incurrence of such Indebtedness or issuance of Preferred Stock and in each case after giving effect thereto, the sum of (1) the aggregate amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to this clause (o) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clause (h) above and clauses (p), (q), (u), (w), (x) and (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (p) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties; *provided* that on the date of the Incurrence of such Indebtedness and in each case after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to this clause (p) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h) and (o) above and clauses (q), (u), (w), (x) and (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (q) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to this clause (q) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h), (o), (p) above and clauses (u), (w), (x) and (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (r) Cross Border Guaranteed Indebtedness in an amount which does not exceed an amount equal to 5.0% of Total Assets at any one time outstanding;

- (s) Indebtedness of the Company or any Restricted Subsidiary maturing within one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (s) at any time outstanding (together with any refinancings thereof) does not exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (t) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (u) 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 (1) 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 (2) 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 Indebtedness Incurred pursuant to this clause (u) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h), (o), (p) and (q) above and clauses (w), (x) and (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (v) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Subordinated Shareholder Loan;
- (w) 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 Indebtedness Incurred pursuant to this clause (w) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h), (o), (p), (q) and (u) above and clauses (x) and (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding;
- (x) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than the Company or 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 Indebtedness Incurred pursuant to this clause (x) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h), (o), (p), (q), (u) and (w) above and clause (y) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding; and

- (y) Indebtedness Incurred by 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 and becomes obligated to pay such deferred purchase price pursuant to such Minority Interest Staged Acquisition Agreement; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto, (1) the aggregate principal amount outstanding of all Indebtedness Incurred under this clause (y) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred and Preferred Stock issued pursuant to clauses (h), (o), (p), (q), (u), (w) and (x) above (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets at any one time outstanding.
- (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 paragraph (1) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness (or any portion thereof) in one or more types of Indebtedness described above.
- (4) Notwithstanding any other provision of this covenant, 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 Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any Restricted Subsidiary’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 Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Restricted Subsidiary other than the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of any Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Restricted Subsidiary); 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 paragraph (1) of the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*;” or
- (c) such Restricted Payment, together with the aggregate amount of all (1) Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and its Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall exceed the sum (without duplication) of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the Measurement Date occurred and ending on the last day of the Company’s most recently ended half-yearly fiscal period or fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted 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 Restricted 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 Restricted Subsidiary is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Restricted Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
 - (iv) an amount equal to the 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 (except, in

each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (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 such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c); plus

(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 Subsidiary Guarantor or JV Subsidiary Guarantor 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 Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, or for the redemption, repurchase or other acquisition of Capital Stock of any Subsidiary Guarantor only, of any Subsidiary Guarantor, or for the redemption, repurchase or other acquisition of Capital Stock of any JV Subsidiary Guarantor only, of any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c) (ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor 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 for the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of any Subsidiary Guarantor only, of any Subsidiary Guarantor, or for the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of any JV Subsidiary Guarantor only, of any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c) (ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company or any Restricted Subsidiary, to all holders of any class of Capital Stock of such Restricted Subsidiary;

- (6) the repurchase, redemption or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any Restricted Subsidiary (or their estate or authorized representatives) upon the death, disability or termination of employment of such employees or directors pursuant to agreements or plans (including employment agreements and share option plans) approved by the Board of Directors in an aggregate amount not to exceed US\$1.0 million (or the Dollar Equivalent thereof) in any fiscal year of the Company;
- (7) repurchases of Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof;
- (8) dividends or other distributions paid to, or the purchase of Capital Stock of any Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Original Issue Date or permitted to be Incurred under clause (2)(o) of the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*”;
- (9) the declaration and payment of dividends on and/or the redemption, repurchase or other acquisition of, the Capital Stock of the Company by the Company in any fiscal year in an aggregate amount not to exceed 30% of profit for the year based on the consolidated financial statements of the Company for the immediate prior fiscal year; or
- (10) the redemption, purchase or other acquisition of Capital Stock of any Restricted Subsidiary from an Independent Third Party, provided that the Company delivers to the Trustee a Board Resolution set forth in an Officers’ Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock;
- (11) (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) the declaration or payment of dividends or other distributions in cash on Capital Stock of any Restricted Subsidiary engaged in property development projects held by any current or former office, 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 under (A), (B) and (C) above shall not exceed US\$5.0 million (or the Dollar Equivalent thereof) in any fiscal year, with any unused amount (representing the difference between such limit and the actual consideration paid) in any such fiscal year being carried over to the subsequent fiscal year;
- (12) the declaration or payment of dividends in kind or other distributions in kind on Capital Stock of any Restricted Subsidiary 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 in the ordinary course of business, which are solely used to acquire Capital Stock of any Restricted Subsidiary engaged in any property development projects;

- (13) payments, including distributions, made under or in connection with any Perpetual Securities Obligation pursuant to the terms thereof or in connection with a repurchase or redemption thereof;
- (14) the distributions or payments of Securitization Fees in connection with Receivable Financings; and
- (15) the purchase of Capital Stock of a Person, and payments made, pursuant to a Minority Interest Staged Acquisition Agreement, *provided* that on the date that such Minority Interest Staged Acquisition Agreement was entered into, such payments would have complied with clauses (a) and (c) of the preceding paragraph;

provided that, in the case of clauses (2), (3) or (4) above, 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 clauses (1), (10) and (13) of the preceding paragraph shall be included, without duplication, 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. For the avoidance of doubt, each Restricted Payment permitted pursuant to any clause of the preceding paragraph (other than clauses (1) and (10) thereof) shall not 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 the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities (other than any Restricted Payments set forth in clauses (5) through (15) above) must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (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 covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this covenant and paragraph (18) of the definition of “Permitted Investment” at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of such paragraphs.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other 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.

provided that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or under any Pari Passu Guarantee, or any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor guaranteed by any 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) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing 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, (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*” and “– *Limitation on Indebtedness and Preferred Stock*” covenants and permitted or not prohibited by the “– *Limitation on Asset Sales*” covenant;

- (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 permitted under “– *Limitation on Indebtedness and Preferred Stock*” covenant if, as determined by the Board of Directors, 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 the ability of the Company to make required payment on the Notes and, with respect to such Indebtedness 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;
- (g) existing in customary provisions in joint venture agreements and other similar agreements, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (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; 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 Unrestricted Subsidiary or its subsidiaries or the property or assets of such 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 or on a basis more favorable to the Company and its Restricted Subsidiaries;
- (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 (including, without limitation, a Permitted Investment under clause (18) of the definition thereof); *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 issuance or sale); *provided* that such issuance or sale complies with or is not prohibited by 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 or JV Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee or JV Subsidiary Guarantee 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 Guarantee is permitted by clause (2)(c), (d) or (q) (in the case of clause (2)(q), with respect to the Guarantee provided by any Restricted Subsidiary that is not a Subsidiary Guarantor or JV Subsidiary Guarantor through the pledge of bank accounts, deposits or other assets to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee), directly or indirectly, any Bank Deposit Secured Indebtedness of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor), under the caption “– *Limitation on Indebtedness and Preferred Stock.*”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such Guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor Guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such Guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “**Affiliate Transaction**”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2) (a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view 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 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 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, or share option or similar schemes, for so long as such scheme is in compliance with the listing rules of the Hong Kong Stock Exchange or any Alternative Stock Exchange, which as of the Original Issue Date require a majority shareholder approval of any such scheme (if any); and
- (6) 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.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) permitted or not prohibited by the "*– Limitation on Restricted Payments*" covenant, (ii) Investments made under clause (18) of the definition of "**Permitted Investments**," (iii) transactions pursuant to agreements in effect on the Original Issue Date, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous, taken as a whole, to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iv) any transaction (A) between or among the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, (B) between or among Restricted

Subsidiaries that are not Wholly Owned Restricted Subsidiaries, or (C) between or among the Company or a Restricted Subsidiary on the one hand and any Minority Joint Venture or Unrestricted Subsidiary on the other, *provided* that in the case of clause (iv) (a) such transaction is entered into in the ordinary course of business, (b) in the case of a non-Wholly Owned Restricted Subsidiary, none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary or by reason of being a Subsidiary or Minority Joint Venture of the Company) and (v) for as long as the Common Stock of the Company remains listed on the Hong Kong Stock Exchange, any Affiliate Transaction which is conducted in compliance with the applicable listing rules of the Hong Kong Stock Exchange.

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary 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 Restricted Subsidiary 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, whether owned at the Original Issue Date or thereafter acquired (other than the Collateral), except Permitted Liens, unless the Notes are secured equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the caption “– *Limitation on Indebtedness and Preferred Stock*” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described 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 such 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 such Sale and Leaseback Transaction is in compliance with or not prohibited by the covenant described 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;
- (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\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

- (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay any Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Non-Guarantor Subsidiary (and, if such 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, make capital expenditures or acquire, improve or develop properties or assets (other than current assets, but including the capital stock of any Person that is or becomes a Restricted Subsidiary) that are or will be used in the Permitted Businesses ("**Replacement Assets**");

provided that, Pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above, the Company or any Restricted Subsidiary may make an Investment in cash or Temporary Cash Investments.

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 equals or exceeds US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to but excluding the date of purchase (subject to the right of Holders of record on the applicable Record Date to receive interest due on the relevant Interest Payment Date falling on or prior 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 such 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 (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes (and such other *pari passu* Indebtedness) will be purchased on a pro rata basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was permitted or not prohibited when made by the covenant described under the caption “– *Limitation on Restricted Payments.*”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified under the caption “*Use of Proceeds*” in this Offering Memorandum (or in the case of Additional Notes, the offering or other document relating to the sale of such Additional Notes) and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

On the Original Issue Date, each of the Existing Unrestricted Subsidiaries shall be an Unrestricted Subsidiary.

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 credit support in compliance with clause (6) of this paragraph) for the Indebtedness of such designated Restricted Subsidiary; (3) such designated Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company as a result of such designation; (4) such designated 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 designated 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 the caption “– *Limitation on Restricted Payments.*”

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 designated 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 designated 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 designated Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such designated Unrestricted Subsidiary is not organized under the laws of the PRC and is not an Offshore Non-Guarantor Subsidiary, such designated Unrestricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such newly-designated Restricted Subsidiary shall become a Subsidiary Guarantor or, if otherwise permitted under the terms of the Indenture, a JV Subsidiary Guarantor to the extent required under the terms under the Indenture; and (6) if such designated Unrestricted 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 designated Unrestricted 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 Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except, in each case, as described in (1), (2) and (3) above, 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, the relevant Security Documents 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 covenant does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from the Rating Agency 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 the Rating Agency, 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”;
- (9) clauses (3), (4) and 5(x) 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 Hong Kong Stock Exchange or any other recognized securities exchange on which the Company’s Common Stock 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 securities 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 in English (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and 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 fiscal quarter of the Company, copies of its financial statements in English (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and 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 fiscal quarters of the Company, copies of its unaudited financial statements in English (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 ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio based upon the most recent Four-Quarter Period and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; provided, that, the Company shall not be required to provide such auditor certificate if its external auditors refuse to provide such certificate as a result of a policy of such external auditors; 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

Each of the following events will be defined as an "Event 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 consecutive days;
- (3) (A) default in the performance or breach of the provisions of the covenants described under the caption "*– Certain Covenants – Limitation on Liens*" or the failure by the Company to create, or cause the Subsidiary Guarantors to create, a Lien on assets required to constitute Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "*– Security*" and such default or failure continues for a period of 15 consecutive days after the earlier of (x) a Responsible Officer of the Company having actual knowledge of such default or failure and (y) written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes, or (B) default in the performance or breach of the provisions of the covenants described under the caption "*– Consolidation, Merger and Sale of Assets*," or the failure by the Company to make or consummate an Offer to Purchase or Delisting Offer to Purchase (as applicable) in the manner described under the captions "*– Repurchase of Notes Upon a Change of Control Triggering Event*," "*– Delisting Put Right*," or "*– Certain Covenants – Limitation on Asset Sales*";
- (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% or more in aggregate principal amount of the Notes;

- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 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 on, such Indebtedness when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which is covered by the Company's insurance carriers 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 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 for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) other than pursuant to a solvent reorganization, the Company or any Significant Subsidiary 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 for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee (other than by reason of the termination of the Indenture or the release of the Subsidiary Guarantee or JV Subsidiary Guarantee of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, in accordance with the Indenture) 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 or the Intercreditor Agreement, 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 the Intercreditor Agreement (other than by reason of the termination of the Indenture or the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the Indenture) or, other than in accordance with the

Indenture, the Intercreditor Agreement and the Security Documents, the Intercreditor Agreement or any Security Document ceases to be or is not in full force and effect or the Trustee or the Collateral Agent ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens and the Intercreditor Agreement).

Notwithstanding anything herein to the contrary, a failure, default or other event that would otherwise have constituted an Event of Default specified in clause (3)(A), (10) or (11) above shall be deemed not to be an Event of Default if the Company could have (as of the most recent consolidated financial statements of the Company provided as required under “– *Certain Covenants – Provision of Financial Statements and Reports*”) elected to have the Subsidiary Guarantor to which such failure, default or other event relates to be a Non-Guarantor Subsidiary or a JV Subsidiary Guarantor (whether such Subsidiary Guarantor caused the failure, default or other event or whether the Capital Stock of such Subsidiary Guarantor constitutes Collateral).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall (subject to the Trustee being indemnified and/or secured or pre-funded to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs, 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.

In the event of a declaration of acceleration of the Notes because an Event of Default specified in clause (5) above has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the default triggering such Event of Default pursuant to clause (5) shall be remedied or cured by the Company or a Restricted Subsidiary or waived by the holders of the relevant Indebtedness within 20 days after the declaration of acceleration with respect thereto and, in each case, (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium, if any, or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

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 of Notes 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, subject to the terms of the Intercreditor Agreement. 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

written request of Holders of at least 25% in aggregate principal amount of outstanding Notes, subject to the Trustee being indemnified and/or secured or pre-funded to its satisfaction and subject to the terms of the Indenture and Intercreditor Agreement, direct the Collateral Agent 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, subject to the terms of the Indenture and Intercreditor Agreement. 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, the Indenture or the Security Documents, that may involve the Trustee in personal liability, or that is unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to act on the direction of the Holders unless it is indemnified and/or secured or pre-funded to its satisfaction.

A Holder of Notes 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% 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 or pre-funding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written 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.

In connection with the delivery of the annual financial statements of the Company delivered pursuant to clause (1) of the covenant described under “– *Certain Covenants – Provision of Financial Statements and Reports,*” the Company shall deliver an Officer’s Certificate to the Trustee certifying 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 the Security Documents that the Company and its Restricted Subsidiaries have 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 in writing of any Default See “– *Certain Covenants – 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) to another Person, unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger 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, the British Virgin Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture and supplements or joinders to the Security Documents and the Intercreditor Agreement, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes, the Security Documents and the Intercreditor Agreement, 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 payments are made, and the Indenture, the Notes, the Security Documents and the Intercreditor Agreement, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default or Event of 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 paragraph (1) of the covenant described under the caption "*– Certain Covenants – 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 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 and supplements or joinders to the Security Documents and the Intercreditor Agreement, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes, the Security Documents and the Intercreditor Agreement, 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 payments are made, and the Indenture, the Notes, the Security Documents and the Intercreditor Agreement, 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 paragraph (1) of the covenant described under the caption “– *Certain Covenants – 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 or is not prohibited by the “– Certain Covenants – 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 and JV 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 New York 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, or the sale, conveyance, transfer, lease or disposal of all or substantially all assets of any Subsidiary Guarantor or JV Subsidiary Guarantor to the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as (in the case of a consolidation or merger only) 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, a Subsidiary Guarantor or a JV Subsidiary Guarantor that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless, except to the extent limited by applicable law, such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not institutional “accredited investors” as defined in Rule 501 under the Securities Act, (ii) Holders or beneficial owners of the Notes that are located in the U.S. or are “U.S. Persons” as defined in Regulation S under the Securities Act, and (iii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

Defeasance and Discharge

Legal Defeasance

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent) in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants or appraisal or investment banking firm to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

Covenant Defeasance

The Indenture will further provide that the provisions of the Indenture applicable to the Notes will no longer be in effect (“**covenant defeasance**”) with respect to clauses (3), (4), (5) (x) and (7) under the first paragraph, and clauses (3), (4), (5) (x) and (6) under the second paragraph under “– Consolidation, Merger and Sale of Assets”, its obligations under “– Repurchase of Notes Upon a Change of Control Triggering Event” and “– Delisting Put Right,” all the covenants described herein under “– Certain Covenants,” all the covenants described herein under “– Certain Covenants,” other than as described under “– Certain Covenants – Government Approvals and Licenses; Compliance with Law,” clause (3) under “– Events of Default” with respect to clauses (3), (4), (5) (x) and (7) under the first paragraph, and clauses (3), (4), (5) (x) and (6) under the second paragraph under “– Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “– Events of Default” with respect to such covenants that are released as a result of such covenant defeasance, clauses (5), (6), (9), (10) and (11) under “– Events of Default” shall be deemed not to be Events of Default upon, among other things, (1) the deposit in a securities safekeeping account or in an account held by the Company in trust for the benefit of the Holders money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) the satisfaction of the provisions described in clause (2) of the preceding paragraph.

In the event of a covenant defeasance and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will remain liable for such payments.

In the case of either legal defeasance or covenant defeasance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees will terminate.

Satisfaction and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes and the Indenture on the date of the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes if, either:

- (1) all Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust) have been delivered to the Trustee for cancellation; or
- (2) (a) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable by reason of the giving of a notice of redemption or otherwise, will become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company has deposited with the Trustee (or its agent) in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity or the applicable redemption date for such payments in accordance with the terms of the

Indenture and the Notes, together with irrevocable written instructions from the Company directing the Trustee or the Paying Agent to apply such funds to the payment thereof at maturity or redemption, as the case may be;

- (b) such discharge shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound; and
- (c) the Company has paid or caused to be paid all sums payable by it under the Indenture, including all amounts payable to the Trustee.

In addition, the Company must deliver to the Trustee an Officers' Certificate stating that all conditions precedent to satisfaction and discharge have been satisfied.

Amendments and Waiver

Amendments without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended, without 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;
- (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 or Collateral Agent;
- (4) add any Subsidiary Guarantor, JV Subsidiary Guarantor, 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 and the corresponding 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 and create or register Liens on such additional Collateral;
- (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 Collateral Agent to supplement or amend the Intercreditor Agreement (including the appointment of a collateral agent thereunder), the Security Documents or the Indenture permitting the holders of Permitted Pari Passu Secured Indebtedness (or their

representatives) to accede to the Intercreditor Agreement, as applicable, 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

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended 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 principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors with any provision thereof; 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 currency of payment of principal of, or premium, if any, or interest on, any Note, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (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;
- (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 from the Liens of the Security Documents, except as permitted by the Indenture, the Security Documents and the Intercreditor Agreement;
- (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 materially adversely affects the Holders;
- (11) amend, change or modify any provision of the Indenture, the Intercreditor Agreement or any Security Document relating to the Collateral, in a manner that materially adversely affects the Holders, except as permitted by the terms of the Indenture;

- (12) reduce the amount payable upon a Delisting Offer, 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 the Delisting Offer, a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be exercised or made, as the case may be, or by which the Notes must be repurchased pursuant to the Delisting Offer, 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 provision in the covenants, definitions or otherwise, unless such amendment, waiver or modification shall be in effect prior to the occurrence of the Delisting Event, a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “Certain Covenants – Limitation on Asset Sales”;
- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “– Optional Redemption” and “– 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 materially and 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 Subsidiary Guarantor or any JV Subsidiary Guarantor 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, as such, of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Concerning the Trustee and the Agents

Citicorp International Limited will be appointed as Trustee under the Indenture. Citibank N.A., London Branch is to be appointed as note registrar (the “**Registrar**”) and paying and transfer agent (the “**Paying and Transfer Agent**”) and, together with the Trustee and Registrar, the “**Agents**”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. 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 will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee indemnity and/or security or pre-funding satisfactory to it against any loss, liability or expense. Pursuant to the terms of the Indenture or the Notes (as the case may be), the Company will reimburse the Trustee for all properly incurred expenses.

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.

Citicorp International Limited will initially act as the Collateral Agent under the Security Documents in respect of the security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Agreement and the Security Documents. Under certain circumstances, the Collateral Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Agreement that are in conflict with the interests of the Trustee, the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any).

Neither the Trustee nor the Collateral Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement or any Security Document for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Collateral Agent indemnity and/or security and/or pre-funding satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, the other Agents and the Collateral Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee, the other Agents or the Collateral Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “**Global Note**”). On the Original Issue Date, the Global Note representing the Notes 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 Notes

Ownership of beneficial interests in the Global Notes (the “**book-entry interests**”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– *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 Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of the 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 Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying and Transfer Agent in U.S. dollars. The Paying and Transfer Agent will, in turn, make such payments to the common depositary 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 (if any) 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.

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 Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of the Agents has or will have any responsibility or liability for:

- (1) 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
- (2) Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the 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 depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or 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.

Actions by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of 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 Notes will be subject to the restrictions on transfer discussed under "*Transfer Restrictions.*"

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants 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

The Company understands 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 the 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, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for 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 Trustee for delivery to the Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Note Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Note Registrar to complete, execute and deliver such 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 first-class mail (if intended for the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor) addressed to the Company, such Subsidiary Guarantor or JV Subsidiary Guarantor at its principal office located at No.59, Gu Jia Ying Road, Xuanwu District, Nanjing, People’s Republic of China or (if intended for the Trustee) at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register.

While the Notes are in global form, 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. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

Each of the Company, the Subsidiary Guarantors and the JV 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 Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, NY10168, 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 is governed by, and construed in accordance with, the laws of the State of New York. The relevant Security Documents pursuant to which the Capital Stock of the Subsidiary

Guarantors and the JV Subsidiary Guarantors are pledged as described under “– Security” will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor or JV Subsidiary Guarantor is incorporated.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “*Description of the Notes*” for which no definition is provided.

“**Acquired Indebtedness**” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“**Adjusted Treasury Rate**” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 17, 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 (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“**Alternative Stock Exchange**” means at any time, in the case of the Company’s shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Company’s shares are then listed or quoted or dealt in; *provided* that such principal stock exchange or securities market shall be a stock exchange or securities market located in the United States regulated as such by the U.S. Securities and Exchange Commission (including, without limitation, the New York Stock Exchange and the NASDAQ Stock Market) or a “designated offshore securities market” as defined in Rule 902(b) of the U.S. Securities Act.

“**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 May 17, 2023 (such redemption price being set forth in the first paragraph under the caption “**Optional Redemption**”), plus (y) all required remaining scheduled interest payments due on such Note through May 17, 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.

“**Asset Acquisition**” means (1) an investment by the Company or any Restricted Subsidiary 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 Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary 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 Restricted Subsidiary (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 Restricted Subsidiary.

“**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, transfer or other disposition 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 Restricted Subsidiary to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales, transfers or other dispositions of inventory, receivables, other current assets, 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 covenant described under the caption “– *Certain Covenants – Limitation on Restricted Payments;*”
- (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 and its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating, granting or enforcement of any Permitted Lien;
- (6) a transaction covered by the covenant described under the caption “– *Consolidation, Merger and Sale of Assets;*”
- (7) any sale, transfer or other disposition by the Company or any Restricted Subsidiary, 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) the issuance by a Restricted Subsidiary of Preferred Stock that is permitted by the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock;*” and
- (9) any sale of Capital Stock in, or Indebtedness or other securities of, an Unrestricted Subsidiary.

“**Attributable Indebtedness**” means, in respect of a Sale and Leaseback Transaction, at the time of determination, 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 bank accounts, 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 the Restricted Subsidiaries to in effect exchange 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 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.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“**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 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.

“**Change of Control**” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than one or more Permitted Holders;
- (2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (3) the Permitted Holders are the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Company;
- (4) individuals who on the Original Issue Date constituted the Board of Directors of the Company (together with any new directors whose election to the Board of Directors was approved by a vote of a majority of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the Board of Directors 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 a Rating Decline.

“**Clearstream**” means Clearstream Banking, S.A.

“**Collateral**” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“**Collateral Agent**” means the collateral agent under the Indenture, the Intercreditor Agreement and the Security Documents, which as of the Original Issue Date will be Citicorp International Limited.

“**Commodity Agreement**” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in commodity prices.

“**Common Stock**” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“**Comparable Treasury Issue**” means the U.S. Treasury security having a maturity comparable to May 17, 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 maturity comparable to May 17, 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 obtained by the Company) Reference Treasury Dealer Quotations for such redemption date.

“**Consolidated Assets**” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of such Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements).

“**Consolidated EBITDA**” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), 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 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 Restricted Subsidiary 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 of the Company or any Restricted Subsidiary or Preferred Stock of a Restricted Subsidiary, in each case, 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. For the avoidance of doubt, distributions incurred, 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 and imputed interest with respect to Attributable Indebtedness, (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 Person (other than the Company or any Restricted Subsidiary) 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 and Liens on any Capital Stock of a Person that is not a Restricted Subsidiary), only to the extent such interest is actually paid by the Company or any Restricted Subsidiary and (7) any capitalized interest, *provided* that Consolidated Interest Expense shall not include (x) interest expense arising from lease which would have been classified as “operating lease” before the adoption of HKFRS 16 (or the equivalent standard under GAAP) and (y) interest expense accruing on 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. For the avoidance of doubt, distributions incurred, 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 of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that 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);
- (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 Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;
- (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 (but not loss) 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 losses due solely to fluctuations in currency values and related tax effects;

- (7) any net after-tax extraordinary or non-recurring gains; and
- (8) any gains (but not loss) resulting from the revaluation of investment properties.

“**Consolidated Net Worth**” means, at any date of determination, stockholders’ equity as set forth, on the most recently available quarterly, semi-annual or annual consolidated balance sheet which may be an internal consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in conformity with GAAP.

“**Contractor Guarantees**” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of assets, real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“**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 or 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 the caption “– Certain Covenants– Limitation on Indebtedness and Preferred Stock”) or (4) otherwise altering the terms and conditions thereof..

“**Creditor Representatives**” means, collectively, the trustee for the holders of the Existing Notes, the Trustee, agent or other representatives of any Permitted Pari Passu Secured Indebtedness.

“**Cross Border Guaranteed Indebtedness**” means (1) Indebtedness the proceeds of which are disbursed in the People’s Republic of China but which Indebtedness is Guaranteed by a guarantor established in a jurisdiction other than the People’s Republic of China, and (2) any Guarantee of such Indebtedness referred to in (1).

“**Currency Agreement**” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in foreign exchange rates.

“**Debt Documents**” means, collectively, the Indenture and the documents evidencing the Existing Notes and any Permitted Pari Passu Secured Indebtedness.

“**Default**” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“**Delisting Event**” means the occurrence of the Common Stock of the Company or a Surviving Person which both (a) ceases to be listed or admitted to trading, or has been suspended from trading for a period equal to or exceeding 120 consecutive Trading Days or more, on the Hong Kong Stock Exchange and (b) is not listed or admitted to trading, or has been suspended from trading for a period equal to or exceeding 120 consecutive Trading Days or more, on any Alternative Stock Exchange (whether as a result of a permanent suspension from trading of such Common Stock on the Hong Kong Stock Exchange or an Alternative Stock Exchange, or otherwise).

“**Delisting Offer to Purchase**” means an offer to purchase the Notes by the Company from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the provisions in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment;
- (2) the purchase price and the date of purchase (which shall be the 45th Business Day from the date such notice is mailed) (the “**Delisting Put 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 Delisting Offer to Purchase shall cease to accrue interest on and after the Delisting Put Date;
- (5) that Holders electing to have a Note purchased pursuant to the Delisting 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 and Transfer Agent at the address specified in the notice prior to the close of business on the tenth Business Day immediately preceding the Delisting Put Date;
- (6) that an election to have the Notes purchase pursuant to the Delisting Offer to Purchase, once validly made, may not be withdrawn;
- (7) that Holders whose Notes are being purchased only in part will be issued 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.

“**Disqualified Stock**” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be repurchased or 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 Non-Guarantor Subsidiary from the Company or another Non-Guarantor Subsidiary (whether directly or through or facilitated by a bank or other financial institution), provided that such borrowings are not reflected as borrowings 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.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Existing Notes" means the 11.375% senior notes due 2022 issued by the Company, the 13.75% senior notes due 2022 issued by the Company, the 13.75% senior notes due 2023 issued by the Company, the 11.75% senior notes due 2021 issued by the Company, the 12.5% senior notes due 2023 issued by the Company, the 12% senior notes due 2022 issued by the Company and the 12.5% senior notes due 2023 issued by the Company.

"Existing Unrestricted Subsidiaries" means Chuangyuan Holdings Limited, Jiayuan (Hong Kong) Group Limited (佳源(香港)集團有限公司) and each of its Subsidiaries, and Zhuo An Development Limited (卓安發展有限公司), and each of its Subsidiaries, which shall be Unrestricted Subsidiaries as of the Original Issue Date.

"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 or a JV Subsidiary Guarantee; 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 or JV Subsidiary Guarantee, 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.

"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.

“**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 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 maybe 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:

- (1) pro forma effect shall be given to any Indebtedness 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 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 or Preferred Stock;
- (2) 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;
- (3) 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;
- (4) 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
- (5) 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 or consolidated 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 (4) or (5) of this paragraph 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 four full fiscal quarters 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 the Hong Kong Financial Reporting Standards (“**HKFRS**”) or such generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“**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 Agreement, Currency Agreement or Interest Rate Agreement.

“**Holder**” means the Person in whose name a Note is registered in the Note register.

“**Hong Kong Stock Exchange**” means The Stock Exchange of Hong Kong Limited.

“**Incur**” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“**Indebtedness**” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person (which shall be valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase or redemption price plus accrued dividends).

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, pre-sale receipts in advance from customers, deferred payment obligations, or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business (2) Entrusted Loans, or (3) any Perpetual Securities Obligation; *provided* that such Indebtedness is not reflected on the consolidated balance sheet of the Company as borrowings or indebtedness (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* that:

- (1) 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) 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) the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (2)(f) of the covenant described under the caption “– Certain Covenants – Limitation on Indebtedness and Preferred Stock,” and (ii) equal to the net amount payable by such Person if such Hedging Obligation were terminated at that time if not Incurred pursuant to such paragraph.

“**Independent Third Party**” means any Person that is not an Affiliate of the Company.

“**Interest Rate Agreement**” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in interest rates.

“**Investment**” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “*Designation of Restricted and Unrestricted Subsidiaries*” and “*Limitation on Restricted Payments*” covenants: (i) 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 (ii) 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,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns, or 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 Moody’s.

“**Investment Property**” means any property that is owned and held by the Company or any Restricted Subsidiary primarily for rental yields or for capital appreciation or both, or any property owned or held by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating or lease income.

“**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 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 Subsidiary**” 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.

“**Measurement Date**” means March 8, 2016.

“**Minority Interest Staged Acquisition Agreement**” means an agreement between the Company and/or any Restricted Subsidiary on the one hand and an Independent Third Party on the other (x) pursuant to which the Company and/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 at the time the Company and/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 instalment over a period of time.

“**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 primarily engaged in the Permitted Businesses, and such Minority Joint Venture’s Subsidiaries.

“**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 banks) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“**Offer to Purchase**” means an offer to purchase the Notes by the Company from the Holders commenced by the Company sending a notice to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the provisions in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “**Offer to Purchase Payment Date**”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;

- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying and Transfer 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 and Transfer 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 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.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying and Transfer Agent money sufficient to pay the purchase price of all Notes or portions thereof tendered pursuant to an Offer to Purchase. 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; and (b) 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 and Transfer Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee 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 all applicable securities laws and regulations 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 conflict with provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described in 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.

“**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 or JV Subsidiary Guarantor under the Indenture, “Officers’ Certificate” means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor or JV Subsidiary Guarantor at the time such certificate is required to be delivered.

“**Opinion of Counsel**” means a written opinion from legal counsel which is reasonably acceptable to the Trustee.

“**Original Issue Date**” means May 17, 2021, 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) or any Subsidiary Guarantor or JV Subsidiary Guarantor; *provided* that (1) the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor, as applicable, was permitted to Incur such Indebtedness under the covenant described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” and (2) such Guarantee ranks *pari passu* with the Notes, with 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 Delisting Offer in the manner described under “– *Delisting Put Right*” or 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 “*Certain Covenants – Limitation on Asset Sales*” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“**Permitted Businesses**” means any business conducted by the Company and its Restricted Subsidiaries on the Original Issue Date and other businesses reasonably related, ancillary or complementary thereto.

“**Permitted Holders**” means any or all of the following:

- (1) Mr. Shum Tin Ching;
- (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); and
- (3) the estate, trust and any immediate family member of the Persons listed in clause (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% or more by Persons specified in clauses (1), (2) or (3).

“**Permitted Investment**” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) 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 to reduce or manage the exposure of the Company or any Restricted Subsidiary to 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 or not prohibited by the covenant described under the caption “– *Certain Covenants – 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 the caption “– *Certain Covenants – 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, other receivables 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 or as otherwise required by governmental authorities from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any Restricted Subsidiary and prepayments made in connection with the direct or indirect acquisition of real or personal property or land use rights, including those related to tender process bids, by the Company or any Restricted Subsidiary (including, without limitation, by way of acquisition of Capital Stock of a Person), in each case in the ordinary course of business;
- (16) Guarantees permitted under the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock;*”
- (17) an acquisition of assets, Capital Stock or other securities by the Company to the extent the consideration for such acquisition consists solely of Common Stock of the Company; and
- (18) any Investment (including any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person, *provided* that:

- (i) the aggregate of all Investments made under this clause (18) since the Original Issue Date shall not exceed an amount equal to 20% of Total Assets at the time of such Investment. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (18) since the Original Issue Date resulting from:
 - (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
 - (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date under this clause (18) of an obligation of any such Person,
 - (C) to the extent that an Investment made after the Original Issue Date under this clause (18) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or
 - (D) any such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this definition),

not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (18),

- (ii) the Person into which such Investment is made is primarily engaged in the Permitted Businesses;
- (iii) if any of the other shareholders or partners (other than the Company or any Restricted Subsidiary) in such Person in which such Investment was made pursuant to this clause (18) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “– *Limitation on Transactions with Shareholders and Affiliates*” (other than by reason of such shareholder or partner being an officer or director of the Company, a Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary or by reason of being a Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary), such Investment shall comply with the requirements set forth under “– *Certain Covenants – Limitation on Transactions with Shareholders and Affiliates*” covenant; and
- (iv) no Default has occurred and is continuing or would occur as a result of such Investment.

For the avoidance of doubt, the value of each Investment made pursuant to this clause (18) shall be valued at the time such Investment is made; and

- (19) the purchase of Capital Stock of a Person and payments made pursuant to a Staged Acquisition Agreement.

“**Permitted Liens**” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided* further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry, in each case, securing Indebtedness under Hedging Obligations permitted by clause (2)(f) of the covenant described under the caption "*– Certain Covenants – 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 (2)(e) of the covenant described under the caption "*– Certain Covenants – 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 securing the Notes issued on the Original Issue Date;

- (14) Liens on Investment Properties securing Indebtedness of any Restricted Subsidiary permitted under clause (2)(p) “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;
- (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 (2)(g) of the covenant described under the caption “– *Certain Covenants – 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 described under the caption “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected on 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% 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 Restricted Subsidiary in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any Restricted Subsidiary in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens granted by the Company or any Restricted Subsidiary in favor of any Trust Company Investor (including the sale or transfer of such Capital Stock to such Trust Company Investor) in respect of, and to secure, the Indebtedness permitted under clause (2)(o) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;

- (23) Liens securing Indebtedness permitted under clause (2)(s) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;
- (24) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “– *Security – Permitted Pari Passu Secured Indebtedness*”; and
- (25) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement securing Indebtedness permitted under clause (2)(n) or (2)(y) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;
- (26) Liens incurred on bank accounts, deposits or other assets made to secure Bank Deposit Secured Indebtedness;
- (27) Liens securing Indebtedness permitted under clauses (2)(r), (t), (u), (w), (x) and (y) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”;
- (28) Liens incurred or deposits made to secure Entrusted Loans; and
- (29) Liens on assets of a Non-Guarantor Subsidiary securing any Permitted Subsidiary Indebtedness of any Non-Guarantor Subsidiary permitted to be Incurred under the proviso in paragraph (1) of the covenant described under “– *Certain Covenants– Limitation on Indebtedness and Preferred Stock.*”

provided that, with respect to the Collateral, “Permitted Liens” (i) shall only refer to the Liens described in clauses (1), (6), (13) and (25) of this definition and (ii) shall be only granted on a *pari passu* basis with the Liens granted under the Security Documents.

“**Permitted Subsidiary Indebtedness**” means Indebtedness of, and all Preferred Stock issued by, any Non-Guarantor Subsidiary (without duplication); *provided* that, on the date of the Incurrence of such Indebtedness or Preferred Stock and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock of all Non-Guarantor Subsidiaries (excluding Public Indebtedness and any Indebtedness and Preferred Stock of any Non-Guarantor Subsidiary permitted under clauses (2)(a), (d), (f), (g) or (m) of the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*”) does not exceed an amount equal to 20% of Total Assets.

“**Perpetual Securities Obligation**” means perpetual securities that are accounted for as equity in accordance with the relevant generally accepted accounting principles.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“**PRC**” means the People’s Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

“**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 (amended on November 4, 2017 and superseded by the Foreign Investment Law of the People’s Republic of China adopted on January 1, 2020) 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 (amended on November 17, 2017 and superseded by the Regulation for Implementing the Foreign Investment Law of the People’s Republic of China adopted on January 1, 2020).

“**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.

“**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 term 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 any other class of Capital Stock of such Person.

“**Responsible Officer**” means the chief executive officer, president, any vice president, chief financial officer, treasurer or assistant treasurer of the Company.

“**Public Indebtedness**” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“**Qualified Exchange**” means either (1) The New York Stock Exchange, the London Stock Exchange, the Hong Kong Stock Exchange, the Nasdaq Stock Market, Singapore Exchange Securities Trading Limited, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Taiwan 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).

“**Rating Agency**” means Moody’s, provided that if Moody’s 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 Moody’s.

“**Rating Category**” means (1) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (2) the equivalent of any such category of Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Moody’s, a decline in a rating from “Ba1” to “Ba2,” as well as from “Ba3” to “B1,” will constitute a decrease of one gradation).

“**Rating Date**” means in connection with actions contemplated under the caption “– Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“**Rating Decline**” means in connection with actions contemplated under the caption “– Consolidation, Merger and Sale of Assets,” the notification by 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).

“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, assets 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 securities by such other Person 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 to the Company by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Group, Inc. and its successors.

“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.

“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 Trustee, the Collateral Agent and/or any Holders in any or all of the Collateral.

“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.

“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, or any group of Restricted Subsidiaries, when taken together and consolidated with its or their Restricted Subsidiaries, that would be a “significant subsidiary” within the meaning of 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,; provided that in each instance in such definition in which the term “10 percent” is used, the term “5 percent” shall be substituted therefor.

“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 not less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such Agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified 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 any loan to the Company or any Restricted Subsidiary from Permitted Holders which (1) is subordinated in right of payment to the Notes, (2) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation, event of default or otherwise, in whole or in part, until one year after the Stated Maturity of the Notes and (3) does not provide for any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and, in each case of (i) and (ii) which is “controlled” and consolidated by such Person in accordance with GAAP; provided, however, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under 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 does not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means each 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 does 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, the United Kingdom, any state of the European Economic Area, 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, the United Kingdom, 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, which in the case of obligations of, or obligations Guaranteed by, the United Kingdom, any state of the European Economic Area, shall be rated at least “A” by S&P, Moody’s or Fitch;
- (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, the United Kingdom, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the U.S. Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P or “F-1” (or higher) according to Fitch;
- (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 or Fitch;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits, money market deposits with any bank, trust company or financial institution organized under the laws of the PRC, Hong Kong or any other jurisdiction where the Company or any Restricted Subsidiary conducts business; and
- (8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC, Hong Kong or anywhere the Company or any Restricted Subsidiary conducts business operations if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months' notice.

“**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 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 be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*” 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 (if any) the budgeted cost provided in good faith by the Company or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

“**Trade Payables**” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“**Trading Day**” means a day when the Hong Kong Stock Exchange or, as applicable, an Alternative Stock Exchange is open for dealing business, provided that if no closing price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

“**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 an Independent Third Party that is a bank, financial institution, insurance company, trust company, fund management company, or asset management company organized under the laws of the PRC, Hong Kong Special Administrative Region, Macau Special Administrative Region or overseas countries or territories or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“**Unrestricted Subsidiary**” means (1) subject to any redesignations under the section titled “–*Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries*,” each of the Existing Unrestricted Subsidiaries and their respective Subsidiaries; (2) 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 (3) any Subsidiary of an Unrestricted Subsidiary.

“**U.S. Government Obligations**” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt

issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, BVI and Hong Kong tax consequences of the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect). The summary 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 the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of Cayman Islands, BVI and Hong Kong tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

Cayman Islands

Under section 6 of the Tax Concessions Act (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax will not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from May 26, 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for 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 a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

There is no stamp duty payable under laws of the Cayman Islands in relation to any of the documents under the Notes provided that they are executed and remain outside the Cayman Islands. Certain stamp duties may be applicable on instruments of transfer in respect of a Note if executed in or brought into the Cayman Islands.

British Virgin Islands

There is no income or other tax of the BVI imposed by withholding or otherwise on any payment to be made to or by the BVI Subsidiary Guarantors according to the Subsidiary Guarantees.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes or payments made by us.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”) as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

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:

- (1) a company carrying on a trade, profession or business in Hong Kong;
- (2) a person, other than a company, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of that trade, profession or business; or
- (3) a financial institution (as defined in the Inland Revenue Ordinance) and such interest arises through or from the carrying on by the financial institution or its business in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or subsequent transfer of the Notes (for so long as the register of holders of the Notes is maintained outside Hong Kong, as is expected to be the case).

PLAN OF DISTRIBUTION

The Company has entered into a purchase agreement with The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, Valuable Capital Limited, BNP Paribas, CMB International Capital Limited, Vision Capital International Holdings Limited, CRIC Securities Company Limited, CCB International Capital Limited, Harmonia Capital Limited, Guotai Junan Securities (Hong Kong) Limited, Seazen Resources Securities Limited, CSFG International Securities Limited, Potomac Capital Limited and Haitong International Securities Company Limited (the “**Initial Purchasers**”) dated May 11, 2021 (the “**Purchase Agreement**”), pursuant to which and subject to certain conditions contained therein, the Company has agreed to sell to each Initial Purchaser, and each Initial Purchaser has severally but not jointly agreed to purchase, the principal amount of the Notes set forth opposite the Initial Purchaser’s name below.

| <u>Initial Purchasers</u> | <u>Principal Amount of the Notes</u> |
|---|--|
| The Hongkong and Shanghai Banking Corporation Limited | US\$10,000,000 |
| BOCOM International Securities Limited | US\$10,000,000 |
| Valuable Capital Limited | US\$10,000,000 |
| BNP Paribas | US\$10,000,000 |
| CMB International Capital Limited | US\$10,000,000 |
| Vision Capital International Holdings Limited | US\$10,000,000 |
| CRIC Securities Company Limited. | US\$10,000,000 |
| CCB International Capital Limited. | US\$8,000,000 |
| Harmonia Capital Limited. | US\$10,000,000 |
| Guotai Junan Securities (Hong Kong) Limited | US\$8,000,000 |
| Seazen Resources Securities Limited | US\$8,000,000 |
| CSFG International Securities Limited | US\$8,000,000 |
| Potomac Capital Limited | US\$10,000,000 |
| Haitong International Securities Company Limited | US\$8,000,000 |
| Total | <u>US\$130,000,000</u> |

The Initial Purchasers are offering the Notes in accordance with the terms of the Purchase Agreement and subject to certain conditions contained in the Purchase Agreement, including, *inter alia*, the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Notes, officers’ certificates and legal opinions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to payment being made to the Company. The Purchase Agreement provides that the Company will indemnify the Initial Purchasers and their respective affiliates against certain liabilities, including liabilities under the Securities Act, in connection with the offer and sale of the Notes. It is possible that only a limited number of investors may hold a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained. Neither the Company, the Subsidiary Guarantors nor the Initial Purchasers are under any obligation to disclose the extent of the distribution of the Notes amongst individual investors.

The Company will pay the Initial Purchasers customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain fees and expenses incurred in connection with the offering.

The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act pursuant to Regulation S.

Application for the Notes will be made to the Hong Kong Stock Exchange by way of debt issues to Professional Investors only. However, no assurance can be given as to the liquidity of any trading market for the Notes. A liquid or active public trading market for the Notes may not develop. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Company and other factors.

The Company expects 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.

In connection with the offering of the Notes, the Initial Purchasers, as stabilization manager, or anyone acting on its behalf, may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the stabilizing manager to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we 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, neither we nor the Initial Purchasers make any representation that any Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The Initial Purchasers or their respective affiliates, or affiliates of the Company, may purchase the Notes for their own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Notes or the Company's securities at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchaser of the Notes). The Initial Purchasers and/or their respective affiliate(s) may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes, acting as investor for their own accounts and not with a view to distribution, and in that capacity may retain, purchase or sell for their own accounts 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 respective affiliates, or affiliates of the Company, for their own account. Such persons are not expected to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "Risk factors – Risks relating to the Notes – An active trading market for the Notes may not develop"). The Company and the Initial Purchasers are under no obligation to disclose the extent of the distribution of the Notes among individual investors.

The Initial Purchasers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company or its subsidiaries, joint ventures or associates from time to time. The Initial Purchasers and their respective affiliates have received, and may in the future receive, customary fees and commissions for these transactions. In addition to the transactions noted above, Initial Purchasers and their affiliates may, from time to time, engage in other transactions with, and perform services for, the Company or its subsidiaries, joint ventures or associates in the ordinary course of their business. In addition, the Initial Purchasers and certain of their respective subsidiaries and affiliates may hold shares or other securities in the Company as beneficial owners, on behalf of clients or in the capacity of investment advisors. Such investment and securities activities may involve securities and instruments of the Company, including the Notes, and could adversely affect the trading prices of the Notes. The Initial Purchasers and their respective affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Company, and may recommend to their respective clients that they acquire long and/or short positions in the Notes or other financial instruments.

Selling Restrictions

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, sold or delivered within the United States and may only be offered, sold or delivered outside the United States in offshore transactions in compliance with Regulation S under the Securities Act.

United Kingdom

This offering memorandum has been prepared on the basis that any offer of securities in the United Kingdom (“UK”) will be made pursuant to an exemption under the FSMA from the requirement to publish a prospectus for offers of securities. The expression FSMA means the Financial Services and Markets Act 2000 (as amended). Neither the Company nor the initial purchasers have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Company or the initial purchasers to publish a prospectus for such offer. Neither the Company nor the initial purchasers have authorized, nor do they authorize, the making of any offer of notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the notes contemplated in this offering memorandum.

The initial purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any notes to any retail investor in the United Kingdom. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

This offering memorandum is for distribution only to persons who (i) fall within Article 43(2)(b) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Promotion Order, (iv) are outside the United Kingdom, or (v) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended, the “FSMA”)) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This 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 Initial Purchasers have:

- (i) only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company or the Subsidiary Guarantors; and

- (ii) have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under Regulation (EU) 2017/1129 (the “Prospectus Regulation”) from the obligation to publish a prospectus for offers of Notes. Neither the Company nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Company or the Initial Purchasers to publish a prospectus for such offer. Neither the Company nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Notes contemplated in this offering memorandum.

The Initial Purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or in the UK. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); and/or
- (ii) a customer within the meaning of Directive 2016/97/EC (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Each person in a Member State of the EEA who receives any communication in respect of, or who acquires any Notes under, the offers to the public contemplated in this offering memorandum, or to whom the Notes are otherwise made available, will be deemed to have represented, warranted, acknowledged and agreed to and with each Initial Purchaser and the Company that it and any person on whose behalf it acquires Notes is not a “retail investor” (as defined above).

In connection with this offering, the Initial Purchasers are not acting for anyone other than the Company and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for providing advice in relation to this offering.

Cayman Islands

No offer or invitation may be made to the public in the Cayman Islands to subscribe for the Notes. The Notes have not been and will not be offered or sold in the Cayman Islands.

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.

Hong Kong

This offering memorandum has not been approved by the Securities and Futures Commission in Hong Kong and, accordingly, the Initial Purchasers (i) have not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under that SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) have not issued or had in their possession for the purposes of the

issue and will not issue or have in its possession for purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

PRC

No Notes may be offered or sold, directly or indirectly, and neither this offering memorandum nor any advertisement or other offering material may be distributed or published, in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful or make the offer or solicitation in the PRC.

Singapore

The Initial Purchasers acknowledge that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, the Initial Purchasers have represented and warranted, and agreed, that it has not offered or sold any notes or caused the notes to be made the subject of an invitation for subscription or purchase, nor will it offer or sell the notes or cause the notes to be made the subject of an invitation for subscription or purchase, nor has it circulated or distributed, nor will it 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 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 and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This offering memorandum has not been and will not be registered as a prospectus with the MAS. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of 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 and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the 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 CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation 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 under the Securities Act. By its purchase of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), each purchaser will be deemed to have:

1. represented that it is purchasing the Notes in an offshore transaction in accordance with Regulation S;
2. represented that (a) it is purchasing the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), for its own account or an account with respect to which it exercises sole investment discretion, 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 and (b) it and any such account is a purchaser that is outside the United States;
3. acknowledged that the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable laws of any state or territory of the United States and any foreign jurisdiction;
4. agreed that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
5. understood and agreed that the Notes will be represented by the Global Notes and that transfers thereto are restricted as described under “Description of the Notes – Book-Entry; Delivery and Form;”
6. understood and agreed that if in the future it decides to resell, pledge or otherwise transfer any Notes represented by the Global Notes or any beneficial interest in any Notes represented by the Global Notes, such Notes may be resold, pledged or transferred only in accordance with the requirements of the legends set forth in paragraph 7 below;
7. understood that the Notes represented by the Global Notes will bear a legend to the following effect unless otherwise agreed to by the Company and the holder thereof:

THIS SECURITY AND THE GUARANTEE RELATED TO THIS SECURITY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED IN THE UNITED STATES UNLESS SUCH SECURITIES AND GUARANTEES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE; and

8. acknowledged that the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Agents, the Initial Purchasers, the Trustee and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and agreed that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes is no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Agents, the Trustee and the Initial Purchasers; and represented that if it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it has sole investment discretion with respect to each such account and has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

RATINGS

We have been assigned a long-term corporate credit rating of B2 with a positive outlook by Moody's Investors Service, a long-term issuer credit rating of B with a stable outlook by Standard & Poor's Ratings Services and a long-term foreign-currency issuer default rating of B with a positive outlook by Fitch Ratings Ltd. The Notes are expected to be rated B3 by Moody's Investors Service. 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 offering and the Notes will be passed upon for us by Sidley Austin as to matters of United States federal and New York law and Hong Kong law, Conyers Dill & Pearman as to matters of British Virgin Islands law and Cayman Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Shearman & Sterling as to matters of United States federal and New York law and Jingtian & Gongcheng as to matters of PRC law.

INDEPENDENT AUDITOR

Our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 reproduced in this offering memorandum have been audited by PricewaterhouseCoopers, as stated in the reports therein and in our annual reports for the years ended December 31, 2019 and 2020.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture has been authorized by our board of directors on May 7, 2021.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

No Material Adverse Change

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the Notes or the Subsidiary Guarantees.

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture will be available to holders of the Notes upon prior written request and satisfactory proof of holding, free of charge during normal business hours on any weekday (except public holidays) (i) at the corporate office of the Trustee or (ii) through electronic mail.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the principal office of the Company.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream with the following Common Code and International Security Identification Number:

ISIN: XS2333154867

Common Code: 233315486

Listing of the Notes

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange 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.

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(1) The audited consolidated financial statements set out herein have been reproduced from the Company's annual report for the year ended December 31, 2020.

(2) The audited consolidated financial statements set out herein have been reproduced from the Company's annual report for the year ended December 31, 2019.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Jiayuan International Group Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Jiayuan International Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 191, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of net realisable value of inventories of properties
- Valuation of investment properties

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|--|--|
| <p>Assessment of net realisable value of inventories of properties</p> <p>Refer to Note 5 'Critical accounting estimates and judgements' and Note 22 'Inventories of properties' to the consolidated financial statements.</p> <p>Inventories of properties of the Group comprised properties under development ("PUD") and properties held for sale ("PHS") which in total amounted to RMB42,339 million as at 31 December 2020. The carrying amounts of inventories of properties are stated at the lower of cost and net realisable value ("NRV").</p> <p>Determination of NRV of inventories of properties involved critical accounting estimates on the selling prices, variable selling expenses and, for PUD, the estimated costs to completion.</p> <p>Given the involvement of critical accounting estimates, the assessment of NRV of these properties is considered a key audit matter.</p> <p>Based on the management's estimation of the NRV of the inventories of properties, a total provision for impairment of RMB436 million was made as at 31 December 2020.</p> | <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> (i) Obtained an understanding of the management's internal control over the process in determination of NRV of inventories of properties and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors including complexity and subjectivity. (ii) Assessed the reliability of management's historical NRV assessment by comparing the parameters adopted in previous year to actual sales data in the current year, on a sample basis. (iii) Tested management's key accounting estimates, on a sample basis, for: <ul style="list-style-type: none"> • Selling prices – we compared the estimated selling prices to the prevailing market prices of comparable properties with similar type, size and location. • Variable selling expenses – we compared the estimated selling expenses to selling price percentage with the actual average selling expenses to revenue ratio of the Group in the current year. • Estimated costs to completion for PUD – we compared the amounts to budget approved by management and inspected the related construction contracts; and compared the anticipated completion costs to the actual costs of similar type of completed properties of the Group. <p>We found the key accounting estimates used in the assessment of NRV of inventories of properties were supportable by available evidence.</p> |

KEY AUDIT MATTERS (CONTINUED)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|--|--|
| <p>Valuation of investment properties</p> <p>Refer to Note 5 'Critical accounting estimates and judgements' and Note 16 'Investment properties' to the consolidated financial statements.</p> <p>Investment properties of the Group amounted to RMB7,927 million as at 31 December 2020. Change in fair value of investment properties of RMB178 million was recognised in the consolidated income statement for the year.</p> <p>The Group's investment properties are measured at fair value model. Management engaged an independent external valuer to assist them to measure the fair values of investment properties. Valuation of investment properties is considered a key audit matter because the determination of fair values for investment properties involved critical accounting judgements and estimates in selection of valuation methodologies and inputs including monthly rentals, term yields, reversionary yields and, for investment properties under construction, the construction costs to be incurred.</p> | <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> (i) Obtained an understanding of the management's internal control over the process in determination of the fair value of investment properties and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors including complexity and subjectivity; (ii) Evaluated the competence, capabilities, and objectivity of the independent external valuer engaged by the Group; (iii) Assessed the appropriateness of the valuation methodologies applied with the assistance of our internal valuation experts; (iv) Assessed the reasonableness of relevant key assumptions used in the valuations of investment properties including the monthly rental, term yields and reversionary yields, by benchmarking them to relevant comparable data; (v) Compared the construction costs to be incurred to budget approved by the management and inspected the related construction contracts; and (vi) Tested the key inputs used in the valuations, on a sample basis, to supporting evidence including rental contracts, market data and market information of comparable properties obtained from various sources. <p>We found the key judgements and accounting estimates used in the valuation of the investment properties were supportable by available evidence.</p> |

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 Cheung Siu Cheong.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 March 2021

CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December | |
|--|------|------------------------|-----------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Revenue | 6 | 18,363,185 | 16,070,171 |
| Cost of sales | 12 | (12,427,653) | (10,828,170) |
| Gross profit | | 5,935,532 | 5,242,001 |
| Other income | 8 | 380,098 | 308,478 |
| Other gains and losses | 9 | 852,383 | (221,777) |
| Net impairment (losses)/reversal on financial assets | 3 | (27,974) | 19,942 |
| Fair value change on investment properties | 16 | (177,503) | 437,238 |
| Selling and marketing costs | 12 | (297,942) | (303,407) |
| Administrative expenses | 12 | (422,990) | (492,296) |
| Finance costs | 10 | (317,641) | (282,698) |
| Share of results of investments accounted for using the equity method | 18 | 125,041 | 82,056 |
| Profit before taxation | | 6,049,004 | 4,789,537 |
| Income tax expenses | 11 | (2,517,811) | (2,329,054) |
| Profit for the year | | 3,531,193 | 2,460,483 |
| Profit for the year attributable to: | | | |
| – Owners of the Company | | 3,275,473 | 2,050,664 |
| – Non-controlling interests | | 255,720 | 409,819 |
| | | 3,531,193 | 2,460,483 |
| Earnings per share attributable to owners of the Company (expressed in RMB cents per share) | | | |
| Basic and diluted | 15 | 82.07 | 52.03 |

The notes on pages 95 to 191 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Profit for the year | 3,531,193 | 2,460,483 |
| Other comprehensive (loss)/income | | |
| <i>Items that may be reclassified to profit or loss:</i> | | |
| – Exchange differences arising on translation of foreign operations | (1,821) | 2,511 |
| Total comprehensive income for the year | 3,529,372 | 2,462,994 |
| Total comprehensive income for the year attributable to: | | |
| – Owners of the Company | 3,273,652 | 2,053,175 |
| – Non-controlling interests | 255,720 | 409,819 |
| | 3,529,372 | 2,462,994 |

The notes on pages 95 to 191 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December | |
|---|------|-------------------|-------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Non-current assets | | | |
| Investment properties | 16 | 7,926,545 | 7,841,906 |
| Property and equipment | 17 | 123,671 | 132,880 |
| Intangible assets | | 38,670 | 31,328 |
| Right-of-use assets | | 9,624 | 10,694 |
| Investments accounted for using the equity method | 18 | 2,289,700 | 985,051 |
| Financial assets at fair value through profit or loss | 19 | 961,039 | 668,204 |
| Deposits paid for acquisitions | 20 | 1,150,157 | 1,167,684 |
| Deferred tax assets | 21 | 668,841 | 597,494 |
| Trade and other receivables | 23 | 38,450 | 124,934 |
| | | 13,206,697 | 11,560,175 |
| Current assets | | | |
| Inventories of properties | 22 | 42,338,765 | 34,112,077 |
| Trade and other receivables | 23 | 5,286,935 | 7,177,335 |
| Financial assets at fair value through profit or loss | 19 | 131,880 | 168,775 |
| Prepaid income tax | | 383,901 | 563,705 |
| Restricted/pledged bank deposits | 24 | 1,938,081 | 2,123,101 |
| Cash and cash equivalents | 24 | 9,002,740 | 6,030,412 |
| | | 59,082,302 | 50,175,405 |
| Total assets | | 72,288,999 | 61,735,580 |
| Current liabilities | | | |
| Trade and other payables | 25 | 7,283,549 | 6,395,483 |
| Pre-sale deposits received | 26 | 18,136,057 | 19,940,467 |
| Current income tax liabilities | | 6,558,589 | 4,628,119 |
| Bank and other borrowings | 27 | 1,377,858 | 4,667,930 |
| Derivative financial instruments | 28 | 190,913 | – |
| Senior notes | 28 | 5,687,872 | 314,084 |
| Lease liabilities | | 6,638 | 3,597 |
| | | 39,241,476 | 35,949,680 |
| Net current assets | | 19,840,826 | 14,225,725 |
| Total assets less current liabilities | | 33,047,523 | 25,785,900 |

| | Note | As at 31 December | |
|---|------|-------------------|-------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Non-current liabilities | | | |
| Bank and other borrowings | 27 | 11,254,769 | 7,462,249 |
| Derivative financial instruments | 28 | – | 238,387 |
| Pre-sale deposits received | 26 | 540,412 | 500,510 |
| Deferred tax liabilities | 21 | 726,512 | 779,587 |
| Senior notes | 28 | 3,065,145 | 4,960,692 |
| Lease liabilities | | 2,957 | 7,317 |
| | | 15,589,795 | 13,948,742 |
| Equity attributable to owners of the Company | | | |
| Share capital | 29 | 34,876 | 33,870 |
| Reserves | 30 | 13,583,354 | 9,825,610 |
| | | 13,618,230 | 9,859,480 |
| Non-controlling interests | | 3,839,498 | 1,977,678 |
| Total equity | | 17,457,728 | 11,837,158 |
| Total equity and non-current liabilities | | 33,047,523 | 25,785,900 |

The notes on pages 95 to 191 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 88 to 191 were approved by the Board of Directors on 29 March 2021 and were signed on its behalf:

Zhang Yi
Director

Cheuk Hiu Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to owners of the Company | | | | |
|---|------|---------------------------------------|----------------------------------|-------------------|---|----------------------------|
| | | Share capital RMB'000 | Reserves (Note 30) RMB'000 | Total RMB'000 | Non- controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2020 | | 33,870 | 9,825,610 | 9,859,480 | 1,977,678 | 11,837,158 |
| Profit for the year | | – | 3,275,473 | 3,275,473 | 255,720 | 3,531,193 |
| Other comprehensive income for the year | | – | (1,821) | (1,821) | – | (1,821) |
| Total comprehensive income for the year | | – | 3,273,652 | 3,273,652 | 255,720 | 3,529,372 |
| Dividends | 14 | – | (391,651) | (391,651) | – | (391,651) |
| Issue of shares upon scrip dividend scheme | 29 | 1,006 | 312,371 | 313,377 | – | 313,377 |
| Capital injection from non-controlling interests | 36 | – | 592,377 | 592,377 | 866,677 | 1,459,054 |
| Acquisitions of non-controlling interests | 36 | – | (29,005) | (29,005) | (30,995) | (60,000) |
| Acquisitions of subsidiaries | 37 | – | – | – | 768,061 | 768,061 |
| Transfer of joint ventures to subsidiaries | 37 | – | – | – | 5,857 | 5,857 |
| Dividends to non-controlling interests | 36 | – | – | – | (3,500) | (3,500) |
| Transactions with owners | | 1,006 | 484,092 | 485,098 | 1,606,100 | 2,091,198 |
| At 31 December 2020 | | 34,876 | 13,583,354 | 13,618,230 | 3,839,498 | 17,457,728 |
| At 1 January 2019 | | 21,083 | 9,045,432 | 9,066,515 | 1,470,165 | 10,536,680 |
| Profit for the year | | – | 2,050,664 | 2,050,664 | 409,819 | 2,460,483 |
| Other comprehensive income for the year | | – | 2,511 | 2,511 | – | 2,511 |
| Total comprehensive income for the year | | – | 2,053,175 | 2,053,175 | 409,819 | 2,462,994 |
| Dividends | 14 | – | (248,054) | (248,054) | – | (248,054) |
| Issue of shares upon scrip dividend scheme | 29 | 45 | 15,571 | 15,616 | – | 15,616 |
| Capital injection from non-controlling interests | | – | 28,644 | 28,644 | 31,356 | 60,000 |
| Dividend paid by entities under common control before acquisition | | – | (751,766) | (751,766) | (42,259) | (794,025) |
| Issue of shares for acquisitions of entities under common control | | 12,742 | (12,742) | – | – | – |
| Acquisitions of non-controlling interests | | – | (304,650) | (304,650) | – | (304,650) |
| Acquisitions of subsidiaries | | – | – | – | 116,492 | 116,492 |
| Dividends to non-controlling interests | | – | – | – | (7,895) | (7,895) |
| Transactions with owners | | 12,787 | (1,272,997) | (1,260,210) | 97,694 | (1,162,516) |
| At 31 December 2019 | | 33,870 | 9,825,610 | 9,859,480 | 1,977,678 | 11,837,158 |

The notes on pages 95 to 191 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December | |
|--|-------|------------------------|------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 31(a) | 2,624,551 | 8,829,870 |
| Income tax paid | | (628,951) | (828,531) |
| Net cash generated from operating activities | | 1,995,600 | 8,001,339 |
| Cash flows from investing activities | | | |
| Deposits paid for trust financing arrangements | | – | (157,620) |
| Refund from deposits paid for trust financing arrangements | | – | 377,612 |
| Additions of property and equipment | 17 | (9,085) | (25,675) |
| Additions of intangible assets | | (12,230) | – |
| Proceeds from disposal of property and equipment | 31(b) | 526 | 1,265 |
| Net cash flow on disposal of subsidiaries | | – | (11,971) |
| Additions of investment properties | 16 | (232,490) | (180,590) |
| Advances to related parties | | (487,330) | (1,825,715) |
| Advances to non-controlling interests | | (286,776) | (562,614) |
| Repayment from related parties | | 538,511 | 3,479,249 |
| Repayment from non-controlling interests | | 33,470 | 34,978 |
| Interest received | | 362,289 | 318,923 |
| Refund from deposits paid for acquisitions | | – | 79,686 |
| Payment for deposits paid for acquisitions | | (7,169) | – |
| Net cash flow on acquisition of subsidiaries | 37 | 222,553 | 223,100 |
| Capital injection to investments accounted for using the equity method | | (1,303,496) | (447,116) |
| Proceeds from disposal of intangible asset | | – | 11,300 |
| Placement of restricted/pledged bank deposits | | (800,000) | (930,123) |
| Withdrawal of restricted/pledged bank deposits | | 860,650 | 965,974 |
| Purchase of financial assets at fair value through profit or loss | | (152,992) | (609,014) |
| Disposal of financial assets at fair value through profit or loss | | 9,747 | 475,393 |
| Net cash generated from/(used in) investing activities | | (1,263,822) | 1,217,042 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December | |
|---|------|------------------------|--------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Cash flows from financing activities | | | |
| Proceeds from bank and other borrowings | | 5,948,205 | 7,819,614 |
| Repayment of bank and other borrowings | | (7,495,093) | (10,490,267) |
| Principal elements of lease payments | | (7,619) | (2,641) |
| Interest paid | | (2,462,801) | (1,776,490) |
| Proceeds from issuance of senior notes | 28 | 5,178,336 | 2,730,999 |
| Repayment of senior notes | 28 | (1,394,203) | (4,644,144) |
| Contribution from ultimate shareholder | | – | 300,000 |
| Payment for acquisitions of entities under common control | | – | (300,000) |
| Advances from related parties | | 1,464,523 | 234,960 |
| Repayment to related parties | | (103,555) | (682,959) |
| Advances from non-controlling interests | | 68,860 | 148,362 |
| Repayment to non-controlling interests | | (189,546) | (262,307) |
| Acquisitions of non-controlling interests | | (60,000) | – |
| Dividend paid by entities under common control before acquisition | | – | (794,025) |
| Dividends paid to non-controlling interests in subsidiaries | | (3,500) | (7,895) |
| Dividends paid | | (78,274) | (232,438) |
| Payment of share issuance costs for a subsidiary | | (21,847) | – |
| Capital contribution from non-controlling interests | | 1,491,409 | 60,000 |
| Net cash generated from/(used in) financing activities | | 2,334,895 | (7,899,231) |
| Net increase in cash and cash equivalents | | 3,066,673 | 1,319,150 |
| Cash and cash equivalents at beginning of year | | 6,030,412 | 4,599,433 |
| Exchange (losses)/gains on cash and cash equivalents | | (94,345) | 111,829 |
| Cash and cash equivalents at end of year | 24 | 9,002,740 | 6,030,412 |

The notes on pages 95 to 191 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

Jiayuan International Group Limited (the “Company”) was incorporated on 5 May 2015 and registered in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. In March 2016, the Company completed the initial listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate holding company is Mingyuan Group Investment Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability. Its ultimate holding company is Galaxy Emperor Limited, a company incorporated in the BVI with limited liability. Its ultimate controlling party is Mr. Shum Tin Ching (the “Ultimate Shareholder”).

The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands. The Company is engaged in investment holding and its subsidiaries (collectively, the “Group”) are principally engaged in the property development, property investment and provision of property management services.

These consolidated financial statements for the year ended 31 December 2020 are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2021.

On 9 December 2020, a subsidiary of the Group, Jiayuan Services Holdings Limited (“Jiayuan Services”) issued 150,000,000 new ordinary shares in its initial public offering and listing on the Stock Exchange at the price of HKD3.86 per share, and raised gross proceeds of HKD579,000,000 (equivalent to approximately RMB486,964,000). On 6 January 2021, 11,709,900 additional shares were issued upon the exercise of the over-allotment option in connection with the listing of Jiayuan Services at a price of HKD3.86 per share. Gross proceeds from the additional offering amounted to HKD45,200,214 (equivalent to approximately RMB40,465,000).

1.2 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards (“HKFRSs”) and the Hong Kong Companies Ordinance

The consolidated financial statements of the Group have been prepared in accordance with applicable HKFRSs and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgments in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss (“FVTPL”) and investment properties, which are carried at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, except for a change of accounting policies explained in Note 2.3 below.

2.1 New and amended standards adopted by the Group

The Group has applied new and amended standards effective for the financial period beginning on 1 January 2020. The adoption of these new and revised standards does not have any significant impact on the consolidated financial statements of the Group.

2.2 New and amended standards and interpretations not yet adopted

New standards and amendments to existing standards which have been issued but not yet effective and have not been early adopted by the Group are as follows:

| | | Effective for annual periods beginning on or after |
|--|--|---|
| Amendments to HKFRS 16 | COVID-19 Related Rent Concessions | 1 June 2020 |
| Amendments to HKFRS9, HKAS 39, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase two | 1 January 2021 |
| Accounting Guideline 5 (Revised) | Merger accounting for common control combinations | 1 January 2022 |
| Amendments to HKFRS 3 | Update reference to the conceptual framework | 1 January 2022 |
| Amendments to HKAS 16 | Proceeds before intended use | 1 January 2022 |
| Amendments to HKAS 37 | Onerous contracts – cost of fulfilling a contract | 1 January 2022 |
| Annual improvements | Annual Improvements to HKFRS Standards 2018-2020 Cycle | 1 January 2022 |
| HKFRS 17 | Insurance contract | 1 January 2023 |
| Amendments to HKAS 1 | Classification of liabilities as current or non-current | 1 January 2023 |
| HK Interpretation 5 (2020) | Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause | 1 January 2023 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associates or joint ventures | To be determined |

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and position of the Group is expected when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Change in accounting policies

In the consolidated financial statements for the year ended 31 December 2019, individual reserve items were presented separately in the consolidated statement of changes in equity. In preparing the consolidated financial statements for the year ended 31 December 2020, the Group, for easy reading and reducing voluminous details, combined all reserve items into one single item to simplify the presentation of the consolidated statement of changes in equity. Comparative information for the consolidated statement of changes in equity for the year ended 31 December 2019 has been retrospectively restated to conform to the current period presentation. This change in accounting policies has no impact on the results and cashflow of the Group.

2.4 Principles of consolidation and equity accounting

2.4.1 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2.4.2 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

2.4.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Principles of consolidation and equity accounting (Continued)

2.4.4 Equity method

Under the equity method of accounting, investments in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of joint ventures and associates in profit or loss, and the Group's share of movements in other comprehensive income of joint ventures and associates in other comprehensive income. When the Group's share of losses in a joint venture and associates equals or exceeds its interests in the joint ventures and associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures and associates), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures and associates.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture and associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and associates and its carrying value and recognises the amount adjacent to 'share of results of investments accounted for the equity method' in profit or loss.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interests in the joint ventures and associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4.5 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.4.6 Disposals of interest in subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Business combinations

2.5.1 Non-common control business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Business combinations (Continued)

2.5.2 Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated income statement includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

2.5.3 Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets/financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

2.6 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Company that makes strategic decisions.

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated income statement within 'other gains and losses'.

(c) Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|-----------------------------------|--|
| Leasehold land and building | Shorter of the term of lease or 50 years |
| Leasehold improvements | 5 years |
| Office equipment | 5 years |
| Furniture, fittings and equipment | 5–10 years |
| Computer equipment | 3–5 years |
| Motor vehicles | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other gains and losses' in the consolidated income statement.

2.10 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets. Changes in fair values are recorded in profit or loss as part of a valuation gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment properties (Continued)

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increase directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. For a transfer from completed properties held for sale or properties under development to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

The Group shall transfer a property from investment property to property under development when it commences related development with a view to sale. For a transfer from investment property that is carried at fair value to property under development, related property under development shall be recognised at fair value at the transfer date.

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(b) Property management contracts

Property management contracts acquired in business combinations are recognised at fair value at the acquisition date. The property management contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives of the contracts (6 years).

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL');
- those to be measured subsequently at fair value through other comprehensive income ('FVOCI'); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (Continued)

(b) Recognition and measurement (Continued)

Debt instruments (Continued)

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of comprehensive income and recognised in 'other gains and losses'. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated income statement within 'other gains and losses' in the period in which it arises. Interest income from these financial assets is included in the 'other income'.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated income statement as 'other income' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in 'other gains and losses' in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

2.14 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3(b) details how the Group determines whether there has been a significant increase in credit risk.

For cash and cash equivalents and restricted/pledged bank deposits, trade and other receivables, deposits paid for acquisitions and financial guarantees contracts, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets (Continued)

A number of significant judgements are required in measuring the ECL, such as:

- i) Determining criteria for significant increase in credit risk;
- ii) Choosing appropriate models and assumptions for the measurement of ECL including exposure at default (EAD), probability of default (PD), loss given default (LGD), etc.; and
- iii) Establishing the number and relative weightings of forward-looking scenarios for the associated ECL.

For the financial instruments subject to ECL measurement, the Group assesses the significant increase in credit risk since initial recognition or whether an instrument is considered to be credit impaired, outlines a 'three-stage' model ECL models are established and staging definition are set for each of these financial assets class. Incorporating forward-looking information, ECL for financial assets are recognised into the different stages and measured the impairment provisions respectively.

Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The impairment provisions are measured at an amount equal to the 12-month ECL for the financial assets which are not considered to have significantly increased in credit risk since initial recognition.

Stage 2: If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The impairment provisions are measured based on ECL on a lifetime basis.

Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. The impairment provisions are measured based on ECL on lifetime basis.

For the financial assets at Stage 1 and Stage 2, the interest income is calculated based on its gross carrying amount (i.e. amortised cost) before adjusting for impairment provision using the effective interest method. For the financial assets at Stage 3, the interest income is calculated based on the carrying amount of the asset, net of the impairment provision, using the effective interest method. Financial assets that are originated or purchased credit impaired are financial assets that are impaired at the time of initial recognition, and the impairment provision for these assets is the ECL for the entire lifetime since initial recognition as purchased or originated credit-impaired financial assets.

There is no significant classification impact of the impairment of financial assets under HKFRS 9 and HKAS 39 at the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period, the change of fair value is recognised immediately in profit or loss within 'other gains and losses'.

2.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.17 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfill a contract comprise the development cost and land use right cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfill a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

2.18 Properties held for sale

Properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Cash and cash equivalents

For purpose of presentation in the consolidated of statement of cash flows, cash and cash equivalent comprise cash on hand held by the Group, deposits held at call with financial institutions, other short-term, highly liquid investments, demand deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2.20 Contract assets and contract liabilities

Upon entering into a contract with a buyer, the Group obtains rights to receive consideration from the buyer and assumes performance obligations to transfer goods or provide services to the buyer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The contract liabilities are presented as pre-sale deposits received on the consolidated statement of financial position.

2.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Borrowing costs (Continued)

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are adjustments to interest costs include the interest rate differences between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and is limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.24 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 debt 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 option 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 debt 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.

2.25 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.26 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries and performance related bonus, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Performance related bonus is determined by reference to the performance of individuals and market trend. The liabilities are presented within "Trade and other payables" in the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Employee benefits (Continued)

(b) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

2.27 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties and provision of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from contracts with customers

Revenues are recognised when or as the control of the asset is transferred to the buyer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the buyer; or
- creates and enhances an asset that the buyer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the buyer obtains control of the asset.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

(i) Sales of properties

Revenue from sales of properties is recognised over time when the Group's performance under the sale contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise revenue from sales of property is recognised at a point in time.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the buyer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable. Revenue of sales of the properties for the Group is recognised at point in time.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

(ii) Property management

The Group provides property management services which including property management services, value-added services to property developers and community value-added services. Revenue is recognised in the accounting period in which the services are rendered or goods are delivered, and the collectability of related consideration is reasonably assured.

For property management services, the Group bills a fixed amount for services provided on a regular basis and recognises as revenue the amount to which the Group has a right to invoice and that corresponds directly with the value of performance completed. For property management services income from properties managed under lump sum basis, where the Group acts as principal and is primary responsible for providing the property management services to customers, the Group recognises the fee received or receivable from customers as its revenue. For property management services income from properties managed under commission basis, the Group recognises the commission, which is calculated by pre-determined percentage of the total property management fee or amounts received or receivable from customers, as its revenue as an agent for arranging and monitoring the services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(ii) Property management (Continued)

Value-added services to property developers mainly includes consultancy services to property developers and cleaning, greening, repair and maintenance services to property developers at the property pre-delivery stage. The Group agrees the price for each service with the customers upfront and issue the monthly bill to the customers which varies based on the actual level of service completed in that month.

Community value-added services include home living services, community area services such as catering services and sales of goods (mainly groceries and home appliances) to customers. For provision of home living services, revenue is recognised when the related services are rendered. Payment of the transaction is due immediately when the community value-added services are rendered. For provision of community area services such as sales of goods and catering, revenue is recognised when the Group has delivered the goods and catering to the purchaser.

Revenue from other sources

Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

2.29 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Leases

The Group leases various properties. These property lease agreements do not impose any covenants, but leased properties may not be used as security for borrowing purposes.

Long-term operating leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.32 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or directors of the Company, where appropriate.

3 FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets at FVTPL, trade and other receivables, deposits paid for acquisition restricted/pledged bank deposits, cash and cash equivalent, trade and other payables, bank and other borrowings, senior notes and derivative financial instruments. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (mainly including interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures during the year reported.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to interest bearing financial assets at FVTPL.

The Group is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits, cash and cash equivalent, variable-rate bank and other borrowings which carry interest at prevailing market interest rates.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

However, the management will consider hedging significant interest rate exposure should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for floating-rate bank and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the respective reporting period. A 100 basis points (2019:100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

For the years ended 31 December 2020 and 2019, if the floating interest rate had been higher/lower by 100 basis points with all other variables held constant, the profit before taxation would have changed as follows:

| | As at 31 December | |
|----------------------------|-------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Increase/(decrease) | | |
| – 100 basis point higher | (29,322) | (20,625) |
| – 100 basis point lower | 29,322 | 20,625 |

No sensitivity analysis has been prepared for the exposure to interest rate risk on the Group's restricted/pledged bank deposits and cash and cash equivalents as the directors of the Company consider that the exposure is minimal.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (Continued)

(ii) Foreign currency risk

The Group collects most of its revenue in RMB and most of the expenditures including expenditures incurred in property sales as well as capital expenditures are mainly denominated in RMB.

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2020 and 2019, the Group has certain financial assets and liabilities denominated in foreign currencies, which expose the Group to foreign currency risk and mainly concentrated on the exposure to United States Dollar ("USD"), Hong Kong Dollar ("HKD") and Australian Dollar ("AUD").

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|-----|------------------|-----------------|-------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2019 RMB'000 |
| USD | 467,077 | 1,888,234 | 10,005,379 | 6,085,279 |
| HKD | 1,960,370 | 479,830 | 2,887,886 | 2,503,467 |
| AUD | 680,574 | 545,511 | – | – |
| | 3,108,021 | 2,913,575 | 12,893,265 | 8,588,746 |

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes the Group's financial assets and liabilities denominated in the foreign currency at the end of each reporting period. A positive/negative number below indicates an increase/decrease in profit where RMB strengthen 5% (2019: 5%) against the relevant currency. For a 5% (2019: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before taxation for the year.

| | USD Impact | | HKD Impact | | AUD Impact | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2019 RMB'000 |
| Increase/(decrease) in profit before taxation for the year | 467,915 | 209,852 | 46,376 | 101,182 | (34,029) | (27,276) |

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risks refer to the risk of losses incurred by the inability of debtors or counterparties to fulfil their contractual obligations or by the adverse changes in their credit conditions. The Group is exposed to credit risk in relation to its cash and cash equivalents and restricted/pledged bank deposits, trade and other receivables, deposits paid for acquisitions and financial guarantee contracts.

Cash and cash equivalents and restricted/pledged bank deposits

The credit risks on cash and cash equivalent, restricted/pledged bank deposits are limited because the counterparties are banks/financial institutions with acceptable credit ratings.

Trade receivables

For trade receivables from customers, the Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables collectively. In this regard, the directors of the Company consider that the Group's credit risk is effectively managed.

Other receivables and deposits paid for acquisition

The credit risks of other receivables and deposits paid for acquisitions are managed through an internal process. The credit quality of each counterparty is investigated before credit is granted. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. The Group reviews the recoverable amount of these receivables at the end of each reporting period.

Financial guarantee contracts

For the financial guarantee contracts provided by the Group to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties, the Group measured the loss allowance on financial guarantee contracts by reference to the historical default rate of the purchasers, the loss on default based on the current property value and the pre-sale deposits already received and the forward looking information. The directors of the Company considered that the loss allowances on financial guarantee contracts at 1 January 2020 and 31 December 2020 were insignificant to the Group. For properties which have been pre-sold, or for the completed properties that sold but the building ownership certificate not yet issued, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's sales deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Impairment assessment

The Group formulates the credit losses of cash and cash equivalents and restricted/pledged bank deposits, trade and other receivables, deposits paid for acquisitions and financial guarantees contracts using ECL models according to HKFRS 9 requirements.

Parameters of ECL model

The parameters and assumptions involved in ECL model are described below.

The Group considers the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, 12-month or lifetime ECL are provided respectively. The ECL is the result of discounting the product of Exposure at Default (EAD), Probability of Default (PD) and Loss given Default (LGD).

- i) EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- ii) The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- iii) LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the Lifetime. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grading band. This is supported by historical analysis.

Judgement of significant increase in credit risk ("SICR")

Under HKFRS 9, when considering the impairment stages for financial assets, the Group evaluates the credit risk at initial recognition and also whether there is any significant increase in credit risk for each reporting period. The Group considers various reasonable supporting information to judge if there is significant increase in credit risk when determining the ECL staging for financial assets. Major factor being considered include solvency and operational capabilities. The Group could base on individual financial instruments or portfolios of financial instruments with similar credit risk characteristics to determine ECL staging by comparing the credit risks of the financial instruments at the reporting date with those at initial recognition.

The Group set quantitative and qualitative criteria to judge whether the credit risk has SICR after initial recognition. The judgement criteria mainly include the PD changes of the debtors, changes of credit risk categories and other indicators of SICR, etc.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Impairment assessment (Continued)

The definition of credit-impaired assets

Under HKFRS 9, in order to determine whether credit impairment occurs, the defined standards adopted by the Group are consistent with the internal credit risk management objectives for relevant financial assets, while considering quantitative and qualitative indicators. When the Group assesses whether the debtor has credit impairment, the following factors are mainly considered:

- The debt has overdue for more than 90 days after the contract payment date.
- The lender gives the debtor concessions for economic or contractual reasons due to the debtor's financial difficulties, where such concessions are normally reluctant to be made by the lender.
- The debtor has significant financial difficulties.
- The debtor is likely to go bankrupt or needs other financial restructuring.

The credit impairment of financial assets may be caused by the joint effects of multiple events, and may not be caused by separately identifiable events.

Forward-looking information

The determinations of 12 months and the lifetime EAD, PD and LGD also incorporates forward-looking information. The Group has performed historical data analysis and identified the key macro-economic variables associated with credit risk and ECL for each portfolio. Through regression analysis, the relationship among economic indicators in history with EAD, PD and LGD is determined, and the EAD, PD, LGD are then determined through forecasting economic indicator.

The Group established the values used for different scenarios. In addition to the base economic scenario, the Group also considers other possible scenarios and relative weightings. The Group regularly reassess the number of scenarios and their attributes. The Group combined statistical analysis results to determine the weights of different scenarios, and also considered the range of possible outcomes represented by each scenario, to determine the final macro-economic assumptions and weights for measuring the relevant ECL.

The Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the relationship between economic indicators with PD and LGD. The Group evaluates and forecasts these economic indicators at least annually, provides the best estimates for the future, and regularly evaluates the results.

Similar to other economic forecasts, the estimates of economic indicators have high inherent uncertainties, actual results may have significant difference with estimates. The Group considered the estimates above represented the optimal estimation of possible outcomes.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Impairment assessment (Continued)

Sensitivity analysis

ECL are sensitive to the parameters used in the model, the macro-economic variables of the forward-looking forecast, the weight probabilities in different scenarios, and other factors considered in the application of expert judgement. Changes in these input parameters, assumptions, models, and judgments do not have significant impact on the measurement of ECL.

Credit exposure

Without considering the impact of collateral and other credit enhancements, for on-balance sheet assets, the maximum exposures are based on net carrying amounts as reported in the consolidated financial statements. The Group also assumes credit risk due to financial guarantee contracts.

The following table presents the credit risk exposure of the financial assets under the scope of ECL. Without considering guarantee or any other credit enhancement measures, for on-balance sheet assets, the maximum credit risk exposure is presented as the gross carrying amount of the financial assets:

| | Stage | As at 31 December | |
|---|---------|-------------------|-----------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Financial assets at amortised cost | | | |
| Restricted/pledged bank deposits | Stage 1 | 1,938,081 | 2,123,101 |
| Cash and cash equivalents | Stage 1 | 9,002,740 | 6,030,412 |
| Trade and other receivables | Stage 1 | 4,719,349 | 6,278,923 |
| Deposits for acquisitions | Stage 1 | 1,161,656 | 1,176,508 |
| Financial guarantee contracts | Stage 1 | 10,776,325 | 13,289,638 |

- (i) For restricted/pledged bank deposits and cash and cash equivalents, the Group determines the ECL by referring to external credit rating of the related banks
- (ii) For trade and other receivables and deposits paid for acquisitions, the Group assesses the ECL with reference to the credit status of the recipients and the past due status of doubtful debtors.
- (iii) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

The following tables explain the changes in the gross carrying amount and impairment provision of trade and other receivables and deposits for acquisition of land use right between the beginning and the end of the annual period due to these factors:

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Impairment assessment (Continued)

Trade and other receivables

| | For the year ended 31 December 2020 | | | | |
|-----------------------|-------------------------------------|----------------------|--|-----------------------|------------------------|
| | Stage | 1 January RMB'000 | Net increase/ (decrease) RMB'000 | Write-offs RMB'000 | 31 December RMB'000 |
| Gross carrying amount | Stage 1 | 6,278,923 | (1,559,574) | – | 4,719,349 |
| Impairment provision | Stage 1 | 74,654 | 25,299 | – | 99,953 |

| | For the year ended 31 December 2019 | | | | |
|-----------------------|-------------------------------------|----------------------|--|-----------------------|------------------------|
| | Stage | 1 January RMB'000 | Net increase/ (decrease) RMB'000 | Write-offs RMB'000 | 31 December RMB'000 |
| Gross carrying amount | Stage 1 | 10,632,798 | (4,353,850) | (25) | 6,278,923 |
| Impairment provision | Stage 1 | 92,141 | (17,462) | (25) | 74,654 |

Deposits paid for acquisitions

| | For the year ended 31 December 2020 | | | | |
|-----------------------|-------------------------------------|----------------------|--|-----------------------|------------------------|
| | Stage | 1 January RMB'000 | Net increase/ (decrease) RMB'000 | Write-offs RMB'000 | 31 December RMB'000 |
| Gross carrying amount | Stage 1 | 1,176,508 | (14,852) | – | 1,161,656 |
| Impairment provision | Stage 1 | 8,824 | 2,675 | – | 11,499 |

| | For the year ended 31 December 2019 | | | | |
|-----------------------|-------------------------------------|----------------------|--|-----------------------|------------------------|
| | Stage | 1 January RMB'000 | Net increase/ (decrease) RMB'000 | Write-offs RMB'000 | 31 December RMB'000 |
| Gross carrying amount | Stage 1 | 1,946,727 | (770,219) | – | 1,176,508 |
| Impairment provision | Stage 1 | 11,304 | (2,480) | – | 8,824 |

No impairment allowance was made on cash and cash equivalents, restricted/pledged bank deposits and financial guarantee contracts at the end of each reporting period as the directors of the Company consider the effect is minimal.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, banks and other borrowings and senior notes which are repayable on demand are included in the earliest time band. The maturity dates for other non-derivative financial liabilities are based on the agreed/expected repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | On demand or less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|--|--|--|--|-------------------------------|
| At 31 December 2020 | | | | | |
| Trade and other payables (excluding business and other tax payables, payroll payable) | 6,479,826 | – | – | 6,479,826 | 6,479,826 |
| Lease liabilities | 7,179 | 3,061 | 94 | 10,334 | 9,595 |
| Bank and other borrowings | 2,716,196 | 10,117,136 | 1,992,805 | 14,826,137 | 12,632,627 |
| Senior notes | 6,180,809 | 1,701,528 | 2,152,124 | 10,034,461 | 8,753,017 |
| | 15,384,010 | 11,821,725 | 4,145,023 | 31,350,758 | 27,875,065 |
| Financial guarantee – Mortgage guarantees | 10,776,325 | – | – | 10,776,325 | – |

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

| | On demand or Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|--|--|--|--|-------------------------------|
| At 31 December 2019 | | | | | |
| Trade and other payables (excluding business and other tax payables, payroll payable) | 5,792,343 | – | – | 5,792,343 | 5,792,343 |
| Lease liabilities | 5,501 | 3,631 | 4,280 | 13,412 | 10,914 |
| Bank and other borrowings | 5,883,119 | 5,378,078 | 2,897,981 | 14,159,178 | 12,130,179 |
| Senior notes | 805,328 | 670,805 | 5,743,048 | 7,219,181 | 5,274,776 |
| | 12,486,291 | 6,052,514 | 8,645,309 | 27,184,114 | 23,208,212 |
| Financial guarantee | | | | | |
| – Mortgage guarantees | 13,289,638 | – | – | 13,289,638 | – |

(d) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

The difference levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments (Continued)

| | Fair value as at 31 December | | Fair value hierarchy | Valuation techniques, key inputs and relationships of unobservable inputs to fair value |
|---|---------------------------------|-----------------|-------------------------|---|
| | 2020 RMB'000 | 2019 RMB'000 | | |
| Financial assets at fair value through profit or loss: | | | | |
| Debt instrument in Hong Kong (i) | 263,875 | 107,827 | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. The higher internal rate of return, the lower fair value. |
| Debt instrument in overseas (i) | 680,560 | 545,511 | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. The higher internal rate of return, the lower fair value. |
| Deposits paid for life insurance policies (i) | 16,604 | 14,866 | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. The higher internal rate of return, the lower fair value. |
| Listed equity investment in Hong Kong | 131,880 | 168,775 | Level 1 | Quoted bid prices in an active market. |
| Total | 1,092,919 | 836,979 | | |
| Derivative financial instruments | | | | |
| Put options of senior notes recognised | 132,887 | 202,910 | Level 2 | The fair value of put options are determined by assessing the difference between the fair values of the bonds by quoted price based on observable inputs and the pure bond value. |
| Put options of senior notes recognised (ii) | 58,026 | 35,477 | Level 3 | The fair value of put options are determined by assessing the difference between the fair values of the bonds by quoted price based on unobservable inputs (including discount rate) and the pure bond value. The higher discount rate, the lower fair value. |
| Total | 190,913 | 238,387 | | |

There were no transfers between Level 1, 2 and 3 during the years ended 31 December 2020 and 2019.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments (Continued)

(i) Reconciliation of Level 1 fair value measurements of financial assets

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at 1 January | 168,775 | 287,612 |
| Additions | 7,174 | 14 |
| Disposals | (8,991) | (40,292) |
| Fair value change | (24,508) | (82,146) |
| Exchange differences | (10,570) | 3,587 |
| Balance at 31 December | 131,880 | 168,775 |

(ii) Reconciliation of Level 3 fair value measurements of financial assets

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at 1 January | 668,204 | 500,758 |
| Additions | 145,818 | 609,013 |
| Disposals | – | (517,247) |
| Fair value change | 28,202 | 1,768 |
| Interest income | 107,670 | 80,572 |
| Insurance expenses | (51) | (295) |
| Exchange differences | 11,196 | (6,365) |
| Balance at 31 December | 961,039 | 668,204 |

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments (Continued)

(iii) Reconciliation of Level 2 fair value measurements of the financial liabilities which is the put options of senior notes recognised as derivative financial instruments

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Balance at 1 January | 202,910 | 72,902 |
| Additions | 51,434 | – |
| Fair value change | (108,154) | 129,327 |
| Extinguish upon repurchase of senior notes | (2,756) | – |
| Exchange differences | (10,547) | 681 |
| Balance at 31 December | 132,887 | 202,910 |

(iv) Reconciliation of Level 3 fair value measurements of the financial liabilities which is the put options of senior notes recognised as derivative financial instruments

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Balance at 1 January | 35,477 | 106,995 |
| Fair value change | 54,101 | (73,970) |
| Extinguish upon repurchase of senior notes | (27,829) | – |
| Exchange differences | (3,723) | 2,452 |
| Balance at 31 December | 58,026 | 35,477 |

The Group consider that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

The fair value of financial assets and financial liabilities other than financial assets at FVTPL and derivative financial instruments of the Group is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or the quoted prices in the active market.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Financial instruments by category

| | As at 31 December 2020 | |
|--|------------------------|---------------------------------|
| | At FVTPL RMB'000 | At amortised cost RMB'000 |
| Assets as per consolidated statement of financial position | | |
| Trade and other receivables (excluding prepayments) | – | 4,619,396 |
| Deposits paid for acquisitions | – | 1,150,157 |
| Restricted/pledged bank deposits | – | 1,938,081 |
| Cash and cash equivalent | – | 9,002,740 |
| Financial assets at fair value through profit or loss | 1,092,919 | – |
| Total | 1,092,919 | 16,710,374 |
| Liabilities as per consolidated statement of financial position | | |
| Trade and other payables (excluding business and other tax payables, payroll payables) | – | 6,479,826 |
| Lease liabilities | – | 9,595 |
| Bank and other borrowings | – | 12,632,627 |
| Senior notes | – | 8,753,017 |
| Derivative financial instruments | 190,913 | – |
| Total | 190,913 | 27,875,065 |

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Financial instruments by category (Continued)

| | As at 31 December 2019 | |
|---|------------------------|---------------------------------|
| | At FVTPL RMB'000 | At amortised cost RMB'000 |
| Assets as per consolidated statement of financial position | | |
| Trade and other receivables (excluding prepayments) | – | 6,204,269 |
| Deposits paid for acquisitions | – | 1,167,684 |
| Restricted/pledged bank deposits | – | 2,123,101 |
| Cash and cash equivalent | – | 6,030,412 |
| Financial assets at fair value through profit or loss | 836,979 | – |
| Total | 836,979 | 15,525,466 |
| Liabilities as per consolidated statement of financial position | | |
| Trade and other payables (excluding business and other tax payables, payroll payables) | – | 5,792,343 |
| Lease liabilities | – | 10,914 |
| Bank and other borrowings | – | 12,130,179 |
| Senior notes | – | 5,274,776 |
| Derivative financial instruments | 238,387 | – |
| Total | 238,387 | 23,208,212 |

4 CAPITAL MANAGEMENT

The directors of the Company manage its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debts include bank and other borrowings and senior notes, as disclosed in respective notes, net of cash and cash equivalent and restricted/pledged bank deposits.

The directors of the Company review the gearing ratio and capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The calculation of net debts as at 31 December 2020 and 2019 were as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------------|-----------------|-----------------|
| Bank and other borrowings | 12,632,627 | 12,130,179 |
| Senior notes | 8,753,017 | 5,274,776 |
| Total | 21,385,644 | 17,404,955 |
| Less: Cash and cash equivalents | (9,002,740) | (6,030,412) |
| Restricted/pledged bank deposits | (1,938,081) | (2,123,101) |
| Net debts | 10,444,823 | 9,251,442 |
| Total equity | 17,457,728 | 11,837,158 |
| Gearing ratio | 59.8% | 78.2% |

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Valuation of inventories of properties

The Group's inventories of properties are stated at the lower of cost and the net realisable value ("NRV"). The management of the Group make significant judgment on the estimation in determining the NRV of these inventories of properties.

Based on the experience of the management of the Group and the nature of the subject properties, management of the Group determines the NRV of these inventories of properties by reference to the estimated costs to completion, selling prices, variable selling expense and, for properties under development, the estimated costs to completion which takes into account a number of factors including the selling prices of pre-sale units in the same project or comparable properties with similar type, size and location, and market conditions in the prevailing real estate markets.

If there is an increase in costs to completion or a decrease in estimated selling prices, this may result in write-downs for these inventories of properties. Such write-downs require the use of estimates of the management of the Group. Based on the management's estimation of the NRV of the inventories of properties, a provision for impairment of RMB436 million (2019: nil) is recognised as expense and included in cost of sales (Note 12).

(b) Valuation of investment properties

The fair value of the investment properties was determined by reference to valuations conducted on these properties by independent property valuers using property valuation techniques which involve certain estimates under prevailing market conditions. Changes to these estimates may result in changes in the fair value of the investment properties, which will lead to the change of profit for the year.

(c) Estimate of income taxes expenses

Significant judgements are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expense in the year which such determination is made.

The Group is subject to the land appreciation tax ("LAT") in the PRC. The details of the implementation have been announced by local tax bureaux in certain major cities, however, the Group is in the process of finalising the LAT calculation and payments with local tax bureaux in certain major cities in the PRC. Significant judgments are required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

6 REVENUE

Revenue is stated net of sales related tax and is analysed as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------------------|-------------------|-----------------|
| Types of goods and services | | |
| Sales of properties | 17,529,537 | 15,373,501 |
| Property management services | 579,479 | 485,778 |
| Property rental | 254,169 | 210,892 |
| | 18,363,185 | 16,070,171 |
| Revenue is recognised: | | |
| Contracts with customers: | | |
| – At a point in time | 17,538,529 | 15,373,501 |
| – Over time | 570,487 | 485,778 |
| | 18,109,016 | 15,859,279 |
| Other source: rental income | 254,169 | 210,892 |
| | 18,363,185 | 16,070,171 |

There was no individual customer contributing over 10% of the total revenue for the years ended 31 December 2020 and 2019.

6 REVENUE (CONTINUED)

Performance obligations for contracts with customers

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms and the legal environment in the PRC, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable. The Group receives certain percentage of the contract value as deposits from customers when they sign the sale and purchase agreement while construction work of property is still ongoing. Certain customers who use mortgage loans provided by the banks and the remaining amount of the total contract value will be paid to the Group from the banks once the customers meet the requirements of the banks. Such advance payment schemes result in contract liabilities being recognised.

For property management services, the Group recognises revenue in the amount that equals to the right to invoice which corresponds directly with the value to the customer of the Group's performance to date, on a monthly basis. Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided.

Revenue recognised in relation to contract liabilities

The following table shows the amount of the revenue recognised in the current year which relates to carried-forward contract liabilities.

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 14,780,312 | 13,864,156 |

7 SEGMENT INFORMATION

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors, being the chief operating decision maker, for the purpose of allocating resources to segments and assessing their performance. All operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group is principally engaged in property development revenue of which accounted for over 90% of total turnover.

No segment assets and liabilities are presented as they were not provided to the chief operating decision maker for the purpose of resource allocation and performance assessment.

During the years ended 31 December 2020 and 2019, the board of directors concluded that the Group has only one reportable segment – Property development. The other segments are individually and collectively insignificant for segment reporting purpose. As such, no segment information is presented.

No geographical segment analysis is shown as more than 90% of the Group’s revenue are derived from activities in and from customers located in the PRC and more than 90% of the carrying values of the Group’s non-current assets excluding financial instruments and deferred tax assets are situated in the PRC.

8 OTHER INCOME

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Interest income on bank deposits | 125,011 | 79,860 |
| Interest income on loans receivable | 109,287 | 132,597 |
| Interest income on financial assets at fair value through profit or loss (Note 3 (d)(ii)) | 107,670 | 80,572 |
| Compensation income | 17,786 | – |
| Government grant | 4,371 | 592 |
| Others | 15,973 | 14,857 |
| | 380,098 | 308,478 |

9 OTHER GAINS AND LOSSES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|------------------|
| Foreign exchange gains/(losses), net | 697,355 | (61,144) |
| Fair value change on derivative financial instruments | 54,053 | (55,357) |
| Revaluation gain upon transfer of inventories of properties to investment properties | 21,152 | – |
| Fair value change on financial assets at fair value through profit or loss | 3,694 | (80,378) |
| Gains on disposal of investments accounted for using the equity method | 7,674 | 21,712 |
| Gains arising from bargain purchase | 67,453 | – |
| Gains/(losses) on disposals of financial assets at fair value through profit or loss | 756 | (15,232) |
| Losses on disposals of property and equipment | – | (5) |
| Losses on deemed disposal of a subsidiary | – | (39,709) |
| Others | 246 | 8,336 |
| | 852,383 | (221,777) |

10 FINANCE COSTS

| | 2020 RMB'000 | 2019 RMB'000 |
|--|--------------------|-----------------|
| Interest expenses: | | |
| – Bank and other borrowings | 1,277,268 | 1,243,160 |
| – Senior notes | 1,222,730 | 621,541 |
| – Lease liabilities | 806 | 550 |
| | 2,500,804 | 1,865,251 |
| Loss on exchange of senior notes | – | 22,146 |
| | 2,500,804 | 1,887,397 |
| Less: amounts capitalised on qualifying assets | (2,183,163) | (1,604,699) |
| | 317,641 | 282,698 |

Finance costs have been capitalised for investment properties under construction and inventories of properties under development at an average rate of 10.22% (2019: 8.11%) per annum for the year ended 31 December 2020.

11 INCOME TAX EXPENSES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|-----------------|
| Current income tax | | |
| – Corporate income tax | 1,744,597 | 1,131,003 |
| – Land appreciation tax | 1,058,612 | 1,130,859 |
| | 2,803,209 | 2,261,862 |
| Deferred income tax (<i>Note 21</i>) | (285,398) | 67,192 |
| | 2,517,811 | 2,329,054 |

No provision for taxation has been recognised for companies incorporated in the Cayman Islands and the BVI as they are not subject to any tax during the year (2019: nil).

Hong Kong profits tax has been provided at the rate of 16.5% (2019:16.5%) on the estimated assessable profits of the Group's subsidiaries operating in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

All gains arising from the sale or transfer of real estate in the PRC are subject to land appreciation tax at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and certain expenses for the development of the land. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities.

11 INCOME TAX EXPENSES (CONTINUED)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group companies as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------|-----------------|
| Profit before income tax | 6,049,004 | 4,789,537 |
| Tax calculated at income tax rate of 25% (2019: 25%) | 1,512,251 | 1,197,384 |
| Effects of different tax rates applicable to different subsidiaries of the Group | (24,326) | (16,301) |
| Utilisation of tax losses not previously recognised as deferred income tax assets | (33,636) | (22,431) |
| Effects of share of post-tax results of investments accounted for using the equity method | (31,261) | (20,514) |
| Income not subject to tax | (136,675) | (49,303) |
| Tax losses not recognised as deferred income tax assets | 55,012 | 24,358 |
| Temporary differences not recognised as deferred income tax assets | 73,103 | – |
| Expenses not deductible for tax purpose | 309,384 | 367,717 |
| | 1,723,852 | 1,480,910 |
| Land appreciation tax | 1,058,612 | 1,130,859 |
| Tax effect of land appreciation tax | (264,653) | (282,715) |
| Income tax expenses | 2,517,811 | 2,329,054 |

12 EXPENSE BY NATURE

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-------------------|
| Cost of inventories sold | 11,448,604 | 10,480,894 |
| Employee benefit expenses | 530,545 | 422,230 |
| Provision for impairment of inventories of properties | 436,305 | – |
| Advertising and promotion expenses | 214,787 | 198,852 |
| Tax and surcharges | 151,629 | 99,032 |
| Office expenses | 129,796 | 88,079 |
| Professional service fees | 55,851 | 83,701 |
| Travelling and entertainment expenses | 40,190 | 53,636 |
| Bank charges | 35,266 | 57,860 |
| Depreciation and amortisation charges | 31,507 | 15,294 |
| Listing expenses of a subsidiary | 27,085 | – |
| Auditors' remuneration | | |
| – Audit services | 8,260 | 5,500 |
| – Non-audit services | 8,887 | 5,238 |
| Rental expenses | 5,973 | 18,737 |
| Other expenses | 23,900 | 94,820 |
| Total cost of sales, selling and marketing costs and administrative expenses | 13,148,585 | 11,623,873 |

* The auditor was also the reporting accountant for the listing of Jiayuan Services and provided other non-audit services. A total of RMB5 million (2019: nil) has been paid and payable for its services in connection with the issue and listing of shares of Jiayuan Services which has been included in share issuance costs and listing expenses of a subsidiary as appropriate.

13 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

Details of the emoluments paid/payable to the directors and the chief executive of the Company during the years are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Directors' fees | 750 | 750 |
| Other emoluments | | |
| – Salary and other allowances | 7,375 | 6,973 |
| – Performance related bonus | 2,915 | 3,427 |
| – Retirement benefit scheme contributions | 97 | 86 |
| | 11,137 | 11,236 |

13 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

The remuneration of every director and chief executive officer of the Company is set out below:

| | Fees RMB'000 | Salary and other allowances RMB'000 | Performance related bonuses RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|--|-----------------|--|--|---|------------------|
| Year ended 31 December 2020 | | | | | |
| Executive directors | | | | | |
| Mr. Zhang Yi (i) | - | 3,060 | 1,080 | 15 | 4,155 |
| Ms. Cheuk Hiu Nam | - | 183 | - | 1 | 184 |
| Mr. Huang Fuqing | - | 1,109 | 1,085 | 36 | 2,230 |
| Mr. Wang Jianfeng | - | 1,383 | 250 | 15 | 1,648 |
| Non-executive director | | | | | |
| Mr. Shum Tin Ching | - | 785 | - | 15 | 800 |
| Mr. Shen Xiaodong | - | 855 | 500 | 15 | 1,370 |
| Independent non-executive directors | | | | | |
| Mr. Tai Kwok Leung, Alexander | 250 | - | - | - | 250 |
| Dr. Cheung Wai Bun, Charles, JP | 250 | - | - | - | 250 |
| Mr. Gu Yunchang | 250 | - | - | - | 250 |
| | 750 | 7,375 | 2,915 | 97 | 11,137 |

13 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

| | Fees RMB'000 | Salary and other allowances RMB'000 | Performance related bonuses RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|--|-----------------|--|--|---|------------------|
| Year ended 31 December 2019 | | | | | |
| Executive directors | | | | | |
| Mr. Zhang Yi (i) | – | 2,824 | 1,102 | 11 | 3,937 |
| Ms. Cheuk Hiu Nam | – | 176 | – | – | 176 |
| Mr. Huang Fuqing | – | 979 | 1,321 | 27 | 2,327 |
| Mr. Wang Jianfeng | – | 1,286 | 602 | 16 | 1,904 |
| Non-executive director | | | | | |
| Mr. Shum Tin Ching | – | 829 | – | 16 | 845 |
| Mr. Shen Xiaodong | – | 879 | 402 | 16 | 1,297 |
| Independent non-executive directors | | | | | |
| Mr. Tai Kwok Leung, Alexander | 250 | – | – | – | 250 |
| Dr. Cheung Wai Bun, Charles, JP | 250 | – | – | – | 250 |
| Mr. Gu Yunchang | 250 | – | – | – | 250 |
| | 750 | 6,973 | 3,427 | 86 | 11,236 |

- (i) Mr. Zhang Yi resigned as president of the Company with effect from 12 August 2020 while Mr. Shen Hongjie was appointed as the president of the Company on the same date.

(b) Directors' retirement benefits

During the year ended 31 December 2020, no retirement benefits were paid to the directors of the Company by the Group in respect of the director's services as a director of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiaries (2019: nil).

13 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(c) Directors' termination benefits

During the year ended 31 December 2020, no payments to the directors of the Company as compensation for the early termination of appointment (2019: nil).

(d) Consideration provided to or receivable by third parties for making available directors' services

During the year ended 31 December 2020, there were no considerations provided to or receivable by any third party for making available the services of a person as a director of the Company. (2019: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

During the year ended 31 December 2020, there were no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2019: nil).

(f) Directors' material interests in transactions, arrangements or contracts

Except for the transactions disclosed in Note 38(a), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: nil).

(g) Five highest paid employees' emoluments

The five highest paid individuals included 2 directors for the year ended 31 December 2020 (2019: 3 directors). The remunerations of the remaining 3(2019: 2) highest paid individuals for the year are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Employees | | |
| – Salaries and other allowances | 4,241 | 2,195 |
| – Performance related bonus | 1,730 | 1,420 |
| – Retirement benefit scheme contributions | 63 | 47 |
| | 6,034 | 3,662 |

13 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(g) Five highest paid employees' emoluments (Continued)

The remuneration were within the following bands:

| | Number of individuals | |
|------------------------------|-----------------------|------|
| | 2020 | 2019 |
| HKD1,500,001 to HKD2,000,000 | 2 | 2 |
| HKD2,000,001 to HKD2,500,000 | 1 | – |

(h) Other information

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years. The directors' emoluments shown above were for their services in connection with the management of the affairs of the Company.

14 DIVIDENDS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Dividends recognised as distribution during the year: | | |
| Final dividend declared for the prior year – HK11 cents (2019: HK11 cents) per share | 391,651 | 248,054 |

Share scrip alternatives were offered in respect of the dividends declared. These share scrip alternatives were accepted by shareholders, as follows:

| | 2020 | | 2019 | |
|------------------------------|---------|--------------------------|---------|--------------------------|
| | HKD'000 | Equivalent to RMB'000 | HKD'000 | Equivalent to RMB'000 |
| Dividends | | | | |
| – Cash | 86,711 | 78,274 | 263,981 | 232,438 |
| – Scrip dividend alternative | 347,157 | 313,377 | 17,746 | 15,616 |
| | 433,868 | 391,651 | 281,727 | 248,054 |

14 DIVIDENDS (CONTINUED)

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK15.5 cents (2019: HK11 cents) per ordinary share, in an aggregate amount of HKD628,639,000, approximately RMB527,868,000, (2019: HKD433,868,000, approximately RMB388,962,000) taking into account 4,055,735,000 (2019: 3,944,252,000) ordinary shares in issue at the reporting date, has been proposed by the Board of Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period will be either payable in cash or in form of new fully paid shares of the Company in respect of part or all of such final dividend at shareholders' option. The final dividend proposed has not been recognised as a liability in these consolidated financial statements.

15 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by weighted average number of ordinary shares in issue during the year.

| | 2020 | 2019 |
|--|------------------|-----------|
| Profit for the year attributable to owners of the Company (RMB' 000) | 3,275,473 | 2,050,664 |
| Weighted average number of ordinary shares in issue (in thousands) | 3,991,160 | 3,941,295 |
| Basic earnings per share (RMB cents) | 82.07 | 52.03 |

(b) Diluted earnings per share

For the years ended 31 December 2020 and 2019, diluted earnings per share equal basic earnings per share as there were no dilutive potential shares in both years.

16 INVESTMENT PROPERTIES

| | Completed investment properties RMB'000 | Investment properties under construction RMB'000 | Total RMB'000 |
|--|---|--|-------------------------|
| Fair value | | | |
| At 1 January 2020 | 7,647,680 | 194,226 | 7,841,906 |
| Additions | – | 232,490 | 232,490 |
| Transfer to properties held for sale | (62,572) | – | (62,572) |
| Acquisition of a subsidiary | – | 99,800 | 99,800 |
| Transfer from inventories of properties | – | 25,532 | 25,532 |
| Transfer to inventories of properties | – | (54,260) | (54,260) |
| Revaluation gain upon transfer of inventories of properties to investment properties | – | 21,152 | 21,152 |
| Fair value change | (179,120) | 1,617 | (177,503) |
| At 31 December 2020 | 7,405,988 | 520,557 | 7,926,545 |
| At 1 January 2019 | 4,662,833 | 2,908,885 | 7,571,718 |
| Additions | – | 180,590 | 180,590 |
| Disposal of a subsidiary | – | (344,704) | (344,704) |
| Transfer to properties under development | (2,936) | – | (2,936) |
| Transfer upon completion | 2,683,222 | (2,683,222) | – |
| Fair value change | 304,561 | 132,677 | 437,238 |
| At 31 December 2019 | 7,647,680 | 194,226 | 7,841,906 |

The Group's policy is to recognise change of fair value hierarchy levels as of the date of the event or change in circumstances that caused the change. At 31 December 2020 and 2019, the Group had only level 3 investment properties.

16 INVESTMENT PROPERTIES (CONTINUED)

Valuation processes of the Group

The Group's investment properties were valued at transfer or business acquisition dates, and at 31 December 2020 and 2019 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent and professionally qualified valuers who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates the highest and best use.

Discussions of valuation processes and results are held between management and the valuers on a semi-annual basis, in line with the Group's interim and annual reporting dates.

At each half year-end, management:

- Verifies all major inputs to the independent valuation reports;
- Assesses property valuations movements when compared to the prior year valuation reports; and
- Holds discussions with the independent valuers.

Valuation techniques

Valuations are based on:

- (i) Direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size; and/or
- (ii) Income capitalisation approach taking into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property; or
- (iii) Residual method of valuation which is commonly used in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on land and construction costs, professional fees, contingency, marketing and legal cost, and interest payments to be incurred as well as anticipated developer's profits; or
- (iv) The cost approach is a method of using gross replacement costs to arrive at the value of the property as it is, at the date of valuation. The cost approach requires estimates of the value of the land in its existing use plus the estimated replacement cost of the improvement works. The replacement cost of the improvement works includes the cost of building work, site works, professional fees and relevant costs.

The valuation technique of one investment property was changed from direct comparison approach to residual method during the year due to change in construction stage from a land to property under construction. Valuation techniques of other properties remained unchanged during the year.

16 INVESTMENT PROPERTIES (CONTINUED)**Information about fair value measurements using significant unobservable inputs (level 3)**

| | Fair value as at 31 December 2020 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs |
|--|---|---|--|--|
| Completed investment properties | 7,405,988 | Income capitalisation | Monthly rentals (per square meter/month) Term yields Reversionary yields Expected vacancy rate | RMB34-RMB255 1.5%-5.5% 2%-6% 2%-20% |
| Investment properties under construction | 386,257 | Residual method | Budgeted construction costs to be incurred Anticipated developer's profit margin | RMB67.2 million 7%-15% |
| Investment properties under construction | 27,900 | Direct comparison approach | Weighted average of comparable land price (RMB/square meter) | RMB1,929 |
| Investment properties under construction | 106,400 | Direct comparison approach plus cost approach | Weighted average of comparable land price (RMB/square meter) Budgeted construction costs to be incurred | RMB23,155 RMB101.4 million |
| Total amounts | <u>7,926,545</u> | | | |

| | Fair value as at 31 December 2019 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs |
|--|---|----------------------------|--|--|
| Completed investment properties | 7,647,680 | Income capitalisation | Monthly rentals (per square meter/month) Term yields Reversionary yields Expected vacancy rate | RMB45-RMB234 1.5%-6.5% 2%-7% 2%-35% |
| Investment properties under construction | 129,426 | Residual method | Budgeted construction costs to be incurred Anticipated developer's profit margin | RMB79.2 million 3%-20% |
| Investment properties under construction | 64,800 | Direct comparison approach | Weighted average of comparable land price (RMB/square meter) | RMB1,829-RMB1,919 |
| Total amounts | <u>7,841,906</u> | | | |

16 INVESTMENT PROPERTIES (CONTINUED)

Relationships of unobservable inputs to fair value are as follows:

- The higher term yields/reversionary yields, the lower fair value;
- The higher expected vacancy rate, the lower fair value;
- The higher monthly rental, the higher fair value;
- The higher budgeted construction cost to be incurred, the lower fair value; and
- The higher the anticipated developer's profit margin, the lower fair value.

Amounts recognised in profit or loss for investment properties

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Rental income | 246,260 | 210,892 |
| Fair value change on investment properties | (177,503) | 437,238 |
| Revaluation gain upon transfer of inventories of properties to investment properties | 21,152 | – |
| | 89,909 | 648,130 |

Operating expenses is not material for the years ended 31 December 2020 and 2019.

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

As at 31 December 2020 and 2019, the future aggregate minimum lease rentals receivable under non-cancellable operating leases in respect of buildings are as follows:

Operating lease rentals receivable

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 197,285 | 154,965 |
| In the first to second year inclusive | 133,511 | 178,784 |
| In the second to third year inclusive | 113,781 | 109,904 |
| In the third to fourth year inclusive | 90,605 | 109,715 |
| In the fourth to fifth year inclusive | 82,179 | 90,605 |
| After five years | 440,580 | 520,391 |
| | 1,057,941 | 1,164,364 |

17 PROPERTY AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Office equipment RMB'000 | Furniture, fitting and equipment RMB'000 | Computer equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---------------------------------|---|--------------------------------------|--------------------------------|---|----------------------------------|------------------------------|------------------|
| Cost | | | | | | | |
| At 1 January 2020 | 100,238 | 5,090 | 33,768 | 3,328 | 8,209 | 50,602 | 201,235 |
| Additions | 424 | 1,379 | 5,189 | 920 | 346 | 827 | 9,085 |
| Acquisition of subsidiaries | - | - | 295 | 54 | 270 | 1,182 | 1,801 |
| Disposals | - | - | (921) | - | (4) | (986) | (1,911) |
| At 31 December 2020 | 100,662 | 6,469 | 38,331 | 4,302 | 8,821 | 51,625 | 210,210 |
| At 1 January 2019 | 105,357 | 4,861 | 26,679 | 2,775 | 6,584 | 40,885 | 187,141 |
| Additions | 80 | 577 | 9,376 | 720 | 2,036 | 12,886 | 25,675 |
| Acquisition of subsidiaries | 1,431 | 90 | 43 | 8 | 13 | 118 | 1,703 |
| Disposal of subsidiaries | (6,630) | (306) | (1,679) | (175) | (414) | (2,573) | (11,777) |
| Disposals | - | (132) | (651) | - | (10) | (714) | (1,507) |
| At 31 December 2019 | 100,238 | 5,090 | 33,768 | 3,328 | 8,209 | 50,602 | 201,235 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2020 | (12,736) | (3,269) | (15,193) | (2,060) | (5,068) | (30,029) | (68,355) |
| Charge for the year | (3,358) | (1,178) | (3,261) | (592) | (1,594) | (9,586) | (19,569) |
| Disposals | - | - | 455 | - | 4 | 926 | 1,385 |
| At 31 December 2020 | (16,094) | (4,447) | (17,999) | (2,652) | (6,658) | (38,689) | (86,539) |
| At 1 January 2019 | (9,707) | (2,176) | (11,952) | (1,579) | (4,462) | (23,500) | (53,376) |
| Charge for the year | (3,241) | (1,162) | (3,604) | (516) | (706) | (7,157) | (16,386) |
| Disposal of subsidiaries | 212 | 48 | 261 | 35 | 98 | 516 | 1,170 |
| Disposals | - | 21 | 102 | - | 2 | 112 | 237 |
| At 31 December 2019 | (12,736) | (3,269) | (15,193) | (2,060) | (5,068) | (30,029) | (68,355) |
| Carrying values | | | | | | | |
| At 31 December 2020 | 84,568 | 2,022 | 20,332 | 1,650 | 2,163 | 12,936 | 123,671 |
| At 31 December 2019 | 87,502 | 1,821 | 18,575 | 1,268 | 3,141 | 20,573 | 132,880 |

The leasehold land and building is located in Hong Kong and the PRC.

The land and building elements of a lease of land and building cannot be allocated reliably between the land and building elements, and the lease is treated as property and equipment.

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

17 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charge was capitalised or expensed in the following categories in the consolidated financial statements.

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|------------------------------|--------------------------------|--------------------------------|
| Properties under development | 4,666 | 3,601 |
| Cost of sales | 2,690 | 1,143 |
| Selling and marketing costs | 379 | 35 |
| Administrative expenses | 11,834 | 11,607 |
| | 19,569 | 16,386 |

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---------------------------------|--------------------------------|--------------------------------|
| Interests in joint ventures (a) | 2,236,558 | 931,896 |
| Interests in associates (b) | 53,142 | 53,155 |
| | 2,289,700 | 985,051 |

(a) Interests in joint ventures

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------------------|------------------|-----------------|
| At 1 January | 931,896 | 39,900 |
| Additions | 1,442,358 | 735,169 |
| Transfer from subsidiaries | – | 107,423 |
| Share of results | 125,054 | 49,404 |
| Transfer to subsidiaries (Note 37) | (262,750) | – |
| At 31 December | 2,236,558 | 931,896 |

The Group holds equity interest in the entities listed below. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion voting rights held. The joint ventures are unlisted companies.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(a) Investment in joint ventures (Continued)**

| Name of entity | Place of incorporation | Proportion of ownership interest held | | Principal activity |
|--|------------------------|---------------------------------------|------|------------------------------|
| | | 2020 | 2019 | |
| Dongfangsuoqi Investment Development Group Co., Ltd. 東方索契投資發展集團有限公司 | PRC | 36% | 36% | Property Development |
| Lujiang Biyuan Real Estate Development Co., Ltd 廬江碧源房地產開發有限公司 | PRC | 50% | 50% | Property Development |
| Gang Yuan (Cambodia) Development Co., Ltd | Cambodia | 50% | 50% | Property Development |
| Meijia (Pingtan) Cultural Tourism Development Co., Ltd("Meijia Pingtan") 美佳(平潭)文化旅遊發展有限公司 | PRC | 30% | 30% | Cultural Tourism Development |
| Zhejiang Xingjia Property Service Co., Ltd ("Zhejiang Xingjia") 浙江星佳物業服務有限公司 | PRC | 51% | 51% | Property Management |
| Yancheng Xingzhou Jiayuan Real Estate Development Co., Ltd. ("Yancheng Xingzhou") 鹽城星洲佳源房地產開發有限公司 (i) | PRC | 65% | 65% | Property Development |
| Xinjiang Jiayuan Ronghua Real Estate Development Co., Ltd ("Xinjiang Ronghua") 新疆佳源榮華房地產開發有限公司 (i) | PRC | 60% | – | Property Development |
| Shenzhen Rongjia Shanju Industrial Development Co., Ltd ("Rongjia Shanju") 深圳市融佳善居實業發展有限公司 (i) | PRC | 50% | 50% | Investment Holding |
| Anhui Liuzhuang Real Estate Co., Ltd ("Anhui Liuzhuang") 安徽劉莊置業有限責任公司 (i) | PRC | 51% | – | Property Development |
| Chuzhou Jiachen Information and Technology Service Limited Partnership ("Chuzhou Jiachen") 滁州佳晨信息技術諮詢服務合夥企業(有限合夥) (i) | PRC | 51% | – | Investment Holding |
| Suqian Huyuan Real Estate Development Co., Ltd ("Suqian Huyuan") 宿遷湖源房地產開發有限公司(i) | PRC | 31% | – | Property Development |

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investment in joint ventures (Continued)

| Name of entity | Place of incorporation | Proportion of ownership interest held | | Principal activity |
|--|------------------------|---------------------------------------|------|----------------------|
| | | 2020 | 2019 | |
| Changshu Xinsuliansheng City Development Co., Ltd ("Changshu Xinsuliansheng") 常熟新蘇聯晟城市發展有限公司(i) | PRC | 20% | – | Property Development |
| Nanjing Kangxing Science and Technology Industrial Park Operation Management Co., Ltd. ("Nanjing Kangxing") 南京康星科技產業園營運有限公司 (Note 37(b)) | PRC | – | 51% | Property Development |
| Chongqing Jiabao Property Management Co., Ltd ("Chongqing Jiabao") 重慶佳寶物業管理有限公司 (Note 37(c)) | PRC | – | 51% | Property Management |

These entities are regarded as joint ventures and accounted for using the equity method because, according to the articles of association and joint venture agreements of the respective company, the decisions about the relevant activities of these entities require the unanimous consent of all shareholders.

- (i) During the year ended 31 December 2020, the Group has below additions of investment in joint ventures:
- In April 2020, additional paid-in capital of RMB195,163,000 was injected by the Group to Yancheng Xingzhou, a company established in November 2019 by the Group jointly with third parties.
 - In January 2020, the Group established Xinjiang Ronghua, jointly with a third party. The Group injected RMB311,084,000, owning 60% of equity interests in the company.
 - In December 2019, the Group established Rongjia Shanju, jointly with a third party. The Group injected RMB720,500,000 during the year ended 31 December 2020 (2019: nil), owning 50% of equity interests in Rongjia Shanju.
 - In June 2020, the Group acquired 51% equity interests of Anhui Liuzhuang for RMB132,326,000 resulting a bargain purchase gain of RMB6,535,000 from the acquisition after purchase price allocation.
 - In July 2020, the Group established Changshu Xinsuliansheng jointly with a third party. The Group injected RMB3,600,000, owning 20% of equity interests in the company.
 - In August 2020, the Group established Suqian Huyuan jointly with a third party. The Group injected RMB22,350,000, owning 31% of equity interests in the company.
 - In December 2020, the Group established Chuzhou Jiachen jointly with third parties. The Group injected RMB50,800,000, owning 51% of equity interests in the company.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(a) Investment in joint ventures (Continued)**

In the opinion of the directors, none of the above joint ventures are individually material to the Group. Set out below is the summarised financial information of the joint ventures and Group's share of results:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Carrying amounts in the consolidated financial statements | 2,236,558 | 931,896 |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | 125,054 | 49,404 |
| Total comprehensive income | 125,054 | 49,404 |

As at 31 December 2020 and 2019, there are no significant contingent liabilities relating to the Group's interest in the joint ventures. Details of commitments for interests in joint ventures are set out in Note 34.

(b) Interests in associates

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------|-----------------|-----------------|
| At 1 January | 53,155 | 205,565 |
| Additions | – | 1,600 |
| Transfer to subsidiaries | – | (104,933) |
| Disposals | – | (81,729) |
| Share of results | (13) | 32,652 |
| At 31 December | 53,142 | 53,155 |

The Group holds equity interests in the entities listed below. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. The associates are unlisted companies.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(b) Interests in associates (Continued)**

| Name of entity | Country of incorporation | % of ownership interest | | Principal activity |
|---|--------------------------|-------------------------|------|----------------------|
| | | 2020 | 2019 | |
| Hunan Beileide Property Service Co., Ltd 湖南貝雷德物業管理有限公司 (i) | PRC | 8% | 8% | Property Management |
| Mengcheng Biguiyuan Real Estate Development Co., Ltd 蒙城縣碧桂園房地產開發有限公司 | PRC | 30% | 30% | Property Development |

- (i) Hunan Beileide Property Service Co., Ltd. is accounted for as an associate of the Group due to representation in the board of directors.

In the opinion of the directors, none of the above associates are individually material to the Group. Set out below is the summarised financial information of the associates and Group's share of results:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Carrying amounts in the consolidated financial statements | 53,142 | 53,155 |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | (13) | 32,652 |
| Total comprehensive income | (13) | 32,652 |

As at 31 December 2020, there are no significant contingent liabilities and commitments relating to the Group's interest in the associates (2019: nil).

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Debt instruments: | | |
| Debt instruments in Hong Kong | 263,875 | 107,827 |
| Debt instruments in overseas (a) | 680,560 | 545,511 |
| Deposits paid for a life insurance policy | 16,604 | 14,866 |
| Equity instruments: | | |
| Listed equity investments in Hong Kong | 131,880 | 168,775 |
| | 1,092,919 | 836,979 |
| Less: Non-current portion | (961,039) | (668,204) |
| | 131,880 | 168,775 |

- (a) Debt instruments in overseas represent investments in private funds in overseas.
- (b) During the year, the following gains/(losses) and income were recognised in profit or loss in respect of financial assets at fair value through profit or loss:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Fair value change on equity investments | (24,508) | (82,146) |
| Fair value change on debt instruments | 28,202 | 1,768 |
| Interest income | 107,670 | 80,572 |
| | 111,364 | 194 |

- (c) Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

20 DEPOSITS PAID FOR ACQUISITIONS

The Group from time to time enters into agreements with various parties in relation to the acquisition of interest in certain entities which are principally engaged in property development in the PRC. As at 31 December 2020, the Group had made total deposits of RMB1,150,157,000 (2019: RMB1,167,684,000) in relation to these acquisitions. According to these agreements, in case the acquisitions cannot be completed, the deposits paid will be fully refunded to the Group.

21 DEFERRED INCOME TAX

The following are the major deferred tax assets/(liabilities) recognised and movements thereon during the years:

Deferred tax assets

| | Accrued LAT RMB'000 | Revenue recognition RMB'000 | Tax losses RMB'000 | Impairment loss RMB'000 | Others RMB'000 | Total RMB'000 |
|------------------------------|------------------------|-----------------------------------|-----------------------|-------------------------------|-------------------|------------------|
| At 1 January 2020 | 403,960 | 143,641 | 49,114 | 23,313 | 1,807 | 621,835 |
| Recognised in profit or loss | 222,145 | 9,152 | 27,549 | 23,747 | 7,808 | 290,401 |
| At 31 December 2020 | 626,105 | 152,793 | 76,663 | 47,060 | 9,615 | 912,236 |
| At 1 January 2019 | 336,556 | 178,446 | 41,742 | 21,737 | 1,346 | 579,827 |
| Disposal of a subsidiary | – | – | – | – | (59) | (59) |
| Recognised in profit or loss | 67,404 | (34,805) | 7,372 | 1,576 | 520 | 42,067 |
| At 31 December 2019 | 403,960 | 143,641 | 49,114 | 23,313 | 1,807 | 621,835 |

Deferred tax liabilities

| | Fair value of investment properties RMB'000 | Revaluation due to business combination RMB'000 | Others RMB'000 | Total RMB'000 |
|------------------------------|--|--|-------------------|------------------|
| At 1 January 2020 | (722,543) | (76,197) | (5,188) | (803,928) |
| Acquisition of subsidiaries | – | (160,976) | – | (160,976) |
| Recognised in profit or loss | (4,945) | – | (58) | (5,003) |
| At 31 December 2020 | (727,488) | (237,173) | (5,246) | (969,907) |
| At 1 January 2019 | (638,230) | (42,371) | (186) | (680,787) |
| Acquisition of subsidiaries | – | (33,826) | (5,052) | (38,878) |
| Disposal of a subsidiary | 24,996 | – | – | 24,996 |
| Recognised in profit or loss | (109,309) | – | 50 | (109,259) |
| At 31 December 2019 | (722,543) | (76,197) | (5,188) | (803,928) |

21 DEFERRED INCOME TAX (CONTINUED)

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Analysed for reporting purpose after netting off: | | |
| Deferred tax assets | | |
| – Gross amounts | 912,236 | 621,835 |
| – Net off against deferred tax liabilities | (243,395) | (24,341) |
| – Net amounts | 668,841 | 597,494 |
| Deferred tax liabilities | | |
| – Gross amounts | 969,907 | 803,928 |
| – Net off against deferred tax assets | (243,395) | (24,341) |
| – Net amounts | 726,512 | 779,587 |

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2020, the retained earnings of the Group's subsidiaries not yet remitted to holding companies incorporated outside the PRC, for which no deferred income tax liability had been provided, were approximately RMB11,622,492,000 (2019: RMB7,978,370,000). Based on management's estimation of overseas funding requirements, such earnings are expected to be retained by the subsidiaries in the PRC for reinvestment purposes and would not be remitted to their overseas holding companies in the foreseeable future.

At 31 December 2020, the Group had unused tax losses of RMB667,271,000 (2019: RMB359,097,000), available to offset against future profits. Deferred tax assets have been recognised in respect of tax losses of RMB306,652,000 (2019: RMB196,456,000). No deferred tax asset has been recognised for the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|------|---|--------------------------------|
| 2020 | – | 11,461 |
| 2021 | 5,306 | 5,306 |
| 2022 | 35,402 | 37,012 |
| 2023 | 10,933 | 11,430 |
| 2024 | 88,930 | 97,432 |
| 2025 | 220,048 | – |
| | 360,619 | 162,641 |

22 INVENTORIES OF PROPERTIES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|----------------------------------|---|--------------------------------|
| Properties under development (a) | | |
| At cost | 31,531,588 | 23,648,474 |
| At NRV | 524,258 | – |
| | 32,055,846 | 23,648,474 |
| Properties held for sale (b) | | |
| At cost | 8,305,359 | 10,462,723 |
| At NRV | 1,977,560 | – |
| | 10,282,919 | 10,462,723 |
| Others | | |
| At cost | – | 880 |
| Total | 42,338,765 | 34,112,077 |

The operating cycle of the Group's property development projects generally ranges from one to two years.

The Group's inventories of properties are situated in the PRC, Hong Kong and Macao.

A provision for impairment of RMB436,305,000 (2019: nil) is recognised as expense and included in cost of sales (Note 12).

22 INVENTORIES OF PROPERTIES (CONTINUED)

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

(a) Amounts of properties under development comprises:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| – Construction costs including depreciation and staff cost capitalised | 7,068,543 | 7,839,524 |
| – Land use rights | 22,160,451 | 14,059,202 |
| – Borrowing costs capitalised | 3,024,359 | 1,749,748 |
| Total costs | 32,253,353 | 23,648,474 |
| Less: provision for impairment | (197,507) | – |
| Net amounts | 32,055,846 | 23,648,474 |

As at 31 December 2020, properties under development of RMB11,524,653,000 (2019: RMB8,446,822,000) were expected to be completed beyond one year.

The capitalisation rate used to capitalise interest on general borrowings in 2020 was 10.22% (2019: 8.11%) per annum.

(b) Amounts of properties held for sale comprises:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------------------------|---|--------------------------------|
| Total properties held for sale | 10,521,717 | 10,462,723 |
| Less: provision for impairment | (238,798) | – |
| Net amounts | 10,282,919 | 10,462,723 |

23 TRADE AND OTHER RECEIVABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|--------------------------------|--------------------------------|
| Trade receivables, net (a) | 526,370 | 312,509 |
| Other receivables, net (b) | 4,093,026 | 5,891,760 |
| Prepayments (c) | 705,989 | 1,098,000 |
| | 5,325,385 | 7,302,269 |
| Less: Non-current portion of other receivables | (38,450) | (124,934) |
| Current portion of trade and other receivables | 5,286,935 | 7,177,335 |

(a) Details of trade receivables are as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------------------------|--------------------------------|--------------------------------|
| Trade receivables | 561,688 | 321,910 |
| Less: allowance for impairment | (35,318) | (9,401) |
| Trade receivables – net | 526,370 | 312,509 |

Trade receivables mainly arise from properties rental and provision of properties management services. Customers are generally granted credit terms of nil to 1 month. The ageing analysis of trade receivables based on property delivery date or invoice date is as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------|--------------------------------|--------------------------------|
| 0-60 days | 383,020 | 187,875 |
| 61-180 days | 51,950 | 83,805 |
| 181-365 days | 68,107 | 19,008 |
| Over 1 year | 58,611 | 31,222 |
| | 561,688 | 321,910 |

23 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (Continued)

As at 31 December 2020 and 2019, trade receivables were mainly denominated in RMB.

The Group applies the simplified approach to provide for ECL on trade receivables (Note 3(b)).

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

(b) Details of other receivables are as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Advances to joint ventures and associates (i) | 1,148,178 | 2,225,715 |
| Advances to non-controlling interests (ii) | 1,062,932 | 809,626 |
| Loans receivable (iii) | 509,971 | 587,929 |
| Deposits paid for acquisitions of land use rights | 446,923 | 420,000 |
| Projects related deposits (iv) | 488,556 | 911,030 |
| Interest receivable | 62,243 | 190,234 |
| Deposits for trust financing arrangements (v) | 60,178 | 146,719 |
| Advance to staff | 37,609 | 55,112 |
| Other deposits (vi) | 174,341 | 453,642 |
| Other receivables | 166,730 | 157,006 |
| | 4,157,661 | 5,957,013 |
| Less: allowance for impairment | (64,635) | (65,253) |
| | 4,093,026 | 5,891,760 |
| Less: Non-current portion of deposits for trust financing arrangements (v) | (38,450) | (124,934) |
| Current portion of other receivables – net | 4,054,576 | 5,766,826 |

23 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (b) (Continued)
- (i) The amounts represent advances made by the Group to certain joint ventures and associates of the Group for funding the ongoing business activities (including purchase of the land use rights, payments of construction costs and other operating costs). The advances are unsecured, interest-free and repayable on demand.
 - (ii) The amounts represent advances made by certain non-wholly owned subsidiaries to their non-controlling shareholders pursuant to the terms of the respective cooperation agreements. These advances are unsecured, interest-free and repayable on demand.
 - (iii) The amounts represent loan to third parties which are interest-bearing at a fixed interest rate of 23% per annum.
 - (iv) The amounts mainly represent deposits placed at the request of local government. The deposits will be refunded to the Group upon the completion of the relevant projects.
 - (v) The amounts are deposited in trust financing companies for raising trust loans to the Group. The deposits will be refunded to the Group upon final repayments of the trust loans or on demand.
 - (vi) Other deposits mainly represent temporary payments for acquisition of property development projects under negotiation. There is no fixed repayment term for these other deposits and the directors of the Company consider the amounts are repayable on demand.

The above other receivables are unsecured and non-interest bearing, except for the loans receivables which are interest bearing at rates of 23% (2019: 12% to 23%) per annum.

- (c) Prepayments mainly represent prepayments for construction cost, and business and other taxes.

24 RESTRICTED/PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Cash at banks and on hand | 10,940,821 | 8,153,513 |
| Less: Restricted/pledged bank deposits | | |
| – Pledged for mortgage guarantees (a) | (76,111) | (259,083) |
| – Pledged for acquisitions of land use rights (b) | (800,000) | – |
| – Restricted in use (c) | (1,061,970) | (1,864,018) |
| | (1,938,081) | (2,123,101) |
| Cash and cash equivalents | 9,002,740 | 6,030,412 |

- (a) These deposits were pledged to the banks to secure the mortgage guarantees provided to customers and will be released upon obtaining building ownership certificates by customers.
- (b) The amounts represented deposits placed in banks and pledged for business partners to acquire certain land use rights. The deposits will be released upon completion of the bidding process.
- (c) These deposits were placed in bank accounts in accordance with the applicable government regulations. These bank balances can only be applied in designated property development projects, and carry prevailing interest at a rate of 0.61% (2019: 0.38%) per annum as at 31 December 2020.
- (d) Cash at banks carry prevailing market interest rates ranging from 0.01% to 2.75% (2019: 0.01% to 3.65%) per annum as at 31 December 2020.

As at 31 December 2020, the cash at banks are denominated in the following currencies:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------|--------------------------------|--------------------------------|
| RMB | 9,242,467 | 6,128,425 |
| HKD | 1,229,754 | 258,457 |
| USD | 467,077 | 1,765,541 |
| Others | 1,523 | 1,090 |
| | 10,940,821 | 8,153,513 |

The conversion and the remittance of RMB out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC governments.

25 TRADE AND OTHER PAYABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Trade payables (a) | 2,960,397 | 3,639,200 |
| Advances from related parties | 959,508 | 234,960 |
| Advances from non-controlling interests (b) | 789,719 | 729,885 |
| Consideration payable for acquisition of subsidiaries | 689,045 | 95,000 |
| Business and other taxes payable | 688,657 | 514,091 |
| Deposits related to sales of properties | 389,615 | 268,363 |
| Accrued charges | 129,817 | 101,160 |
| Receipts on behalf of property residents | 154,129 | 210,411 |
| Payroll payables | 115,066 | 89,049 |
| Other deposits received (c) | 181,096 | 286,864 |
| Other consideration payables (d) | 226,500 | 226,500 |
| | 7,283,549 | 6,395,483 |

- (a) Trade payables are for construction costs and other project-related expenses which are due for payment based on project progress measured by the Group. The average credit period of trade payables is 30 days.

The following is an aging analysis of trade payables, presented based on the invoice date:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------|--------------------------------|--------------------------------|
| 0-60 days | 2,259,860 | 2,152,245 |
| 61-180 days | 289,607 | 751,103 |
| 181-365 days | 103,391 | 298,295 |
| Over 1 year | 307,539 | 437,557 |
| | 2,960,397 | 3,639,200 |

- (b) The amounts represent advances made by certain non-controlling shareholders to non-wholly subsidiaries pursuant to the terms of the respective shareholders' agreements. These advances are unsecured, interest-free and repayable on demand.
- (c) The amounts mainly represent various deposits received from contractors in relation to tendering and execution of construction contracts.
- (d) The Group in 2018 acquired Guoyang Xinggang Development Co., Ltd. (渦陽縣星港置業有限公司) from an independent third-party vendor. Pursuant to the sale and purchase agreement, as a part of the considerations, the Group is required to transfer 50,000 sq.m. of the completed properties to the vendor. The amount represented the fair value of the properties to be delivered to the vendor on completion.

26 PRE-SALE DEPOSITS RECEIVED

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Contract liabilities related to sales of properties | 17,189,716 | 18,780,511 |
| Contract liabilities related to property management services | 87,853 | 73,018 |
| Value-added tax payable | 1,398,900 | 1,587,448 |
| | 18,676,469 | 20,440,977 |
| Less: non-current portion | (540,412) | (500,510) |
| Current portion | 18,136,057 | 19,940,467 |

The Group receives 30%-100% of the contract value as deposits from customers when they sign the sale and purchase agreements for properties. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the sale of the completed property is recognised.

27 BANK AND OTHER BORROWINGS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Bank loans | | |
| – secured | 304,338 | 3,612,555 |
| – secured and guaranteed | 6,966,938 | 447,500 |
| – unsecured | – | 500 |
| | 7,271,276 | 4,060,555 |
| Trust loans (b) | | |
| – secured | – | 1,292,305 |
| – secured and guaranteed | 3,660,945 | 5,723,300 |
| – unsecured | – | 687,624 |
| | 3,660,945 | 7,703,229 |
| Other loans (c) | | |
| – secured | – | 66,395 |
| – secured and guaranteed | 1,700,406 | 300,000 |
| | 1,700,406 | 366,395 |
| Total bank and other borrowings | 12,632,627 | 12,130,179 |
| Less: amounts due within one year or on demand shown under current liabilities | (1,377,858) | (4,667,930) |
| Amounts shown under non-current liabilities | 11,254,769 | 7,462,249 |

27 BANK AND OTHER BORROWINGS (CONTINUED)

(a) The borrowings are repayable:

| | 31 December 2020 | | | |
|--|-----------------------|------------------------|------------------------|--------------------|
| | Bank loans RMB'000 | Trust loans RMB'000 | Other loans RMB'000 | Total RMB'000 |
| Within one year or on demand | 877,248 | 1,050 | 499,560 | 1,377,858 |
| More than one year, but not exceeding two years | 5,306,547 | 3,659,895 | 505,846 | 9,472,288 |
| More than two year, but not exceeding five years | 1,087,481 | – | 695,000 | 1,782,481 |
| | 7,271,276 | 3,660,945 | 1,700,406 | 12,632,627 |
| Less: amounts due within one year or on demand shown under current liabilities | (877,248) | (1,050) | (499,560) | (1,377,858) |
| Amount shown under non-current liabilities | 6,394,028 | 3,659,895 | 1,200,846 | 11,254,769 |

| | 31 December 2019 | | | |
|--|-----------------------|------------------------|------------------------|--------------------|
| | Bank loans RMB'000 | Trust loans RMB'000 | Other loans RMB'000 | Total RMB'000 |
| Within one year or on demand | 489,500 | 4,112,035 | 66,395 | 4,667,930 |
| More than one year, but not exceeding two years | 1,120,483 | 3,250,154 | 300,000 | 4,670,637 |
| More than two year, but not exceeding five years | 2,450,572 | 341,040 | – | 2,791,612 |
| | 4,060,555 | 7,703,229 | 366,395 | 12,130,179 |
| Less: amounts due within one year or on demand shown under current liabilities | (489,500) | (4,112,035) | (66,395) | (4,667,930) |
| Amount shown under non-current liabilities | 3,571,055 | 3,591,194 | 300,000 | 7,462,249 |

(b) These borrowings are in the form of trust arrangement with trust financing companies. The conventional loan arrangements are loan agreements entered into between the Group and trust financing companies.

(c) Other loans mainly represent secured and guaranteed loans obtained from asset management companies.

27 BANK AND OTHER BORROWINGS (CONTINUED)

- (d) Fixed-rate borrowings amounting to RMB9,700,463,000 (2019: RMB9,380,127,000) carry interest ranging from 1.55% to 14.00% (2019: 1.55% to 14.00%) per annum at 31 December 2020. The remaining borrowings amounting to RMB2,932,164,000 (2019: RMB2,750,052,000) are arranged at variable rates with effective interest rates ranging from 3.65% to 12.00% (2019: 4.00% to 6.51%) per annum at 31 December 2020.
- (e) The range of effective interest rates at the end of each reporting period is as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------|---|--------------------------------|
| Bank loans | 1.55% to 11.70% | 1.55% to 9.50% |
| Trust loans | 12.00% to 14.00% | 7.10% to 14.00% |
| Other loans | 7.10% to 12.92% | 12.00% to 12.80% |

- (f) Except for bank and other borrowings of RMB2,347,418,000 (2019: RMB2,503,467,000) which are denominated in HKD and RMB1,061,449,000 (2019: RMB810,503,000) which are denominated in USD as at 31 December 2020, all the bank and other borrowings are denominated in RMB.

28 SENIOR NOTES

| | <i>Notes</i> | 2020 RMB'000 | 2019 RMB'000 |
|--|--------------|-------------------------|-----------------|
| Issued in 2018 and due October 2020 | | – | 122,533 |
| Issued in 2019 and due March 2022 | (a) | 1,757,054 | 1,848,218 |
| Issued in 2019 and due May 2022 | (b) | 747,265 | 1,639,014 |
| Issued in 2020 and due June 2021 | (c) | 954,730 | – |
| Issued in 2019 and due February 2023 | (d) | 2,139,166 | 1,665,011 |
| Issued in 2020 and due October 2022 | (e) | 1,241,069 | – |
| Issued in 2020 and due April 2023 | (f) | 1,913,733 | – |
| | | 8,753,017 | 5,274,776 |
| Less: amounts due and demandable for repayment within one year shown under current liabilities | | (5,687,872) | (314,084) |
| Included in non-current liabilities | | 3,065,145 | 4,960,692 |

28 SENIOR NOTES (CONTINUED)

The movement of senior notes for the year is set out below:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------|-----------------|
| At 1 January | 5,274,776 | 7,212,509 |
| Derivatives financial instruments recognised | (51,434) | (179,897) |
| Proceeds from issue of new senior notes | 5,178,336 | 2,730,999 |
| Repayment of senior notes | (1,394,203) | (4,644,144) |
| Extinguish upon repurchasing the senior notes | 30,585 | – |
| Exchange difference | (560,884) | 67,098 |
| Interest expenses (Note 10) | 1,222,730 | 621,541 |
| Interest paid | (946,889) | (533,330) |
| At the end of the year | 8,753,017 | 5,274,776 |

- (a) In July 2019, the Company issued senior notes (the “March 2022 Senior Notes”) with a principal amount of USD225,000,000 (equivalent to approximately RMB1,545,233,000), bearing interest at a fixed interest rate of 13.75% per annum and will mature in March 2022. A portion of the March 2022 Senior Notes was used to exchange for a total of USD174,671,000 in principal amount of the senior notes due October 2020.

In November 2019, the Company issued senior notes with a principal amount of USD30,000,000 (equivalent to approximately RMB210,813,000), which were consolidated with and formed a single series with the March 2022 Senior Notes.

In February 2020, the Company issued senior notes with a principal amount of USD67,500,000 (equivalent to approximately RMB472,891,500), which were consolidated with and formed a single series with the March 2022 Senior Notes.

In October 2020, the Company repurchased the March 2022 Senior Notes in an aggregate principal amount of USD60,000,000 (equivalent to approximately RMB402,168,000), representing 18.60% of the aggregate principal amount of the Notes originally issued.

On 1 February 2021, the Company published an announcement to offer to repurchase March 2022 Senior Notes. A total of approximately USD55,755,000 (equivalent to approximately RMB360,306,000) in principal amount of the March 2022 Senior Notes have been validly tendered and accepted pursuant to the Company’s offer to purchase. On 11 March 2021, a total of approximately USD61,538,000 (equivalent to approximately RMB399,812,000) in principal amount of the March 2022 Senior Notes were further repurchased by the Company following the exercise of a put option pursuant to the terms of the March 2022 Senior Notes.

28 SENIOR NOTES (CONTINUED)

- (b) In May 2019, the Company issued senior notes (the “May 2022 Senior Notes”) with a principal amount of USD225,000,000 (equivalent to approximately RMB1,514,588,000), bearing interest at a fixed interest rate of 11.375% per annum, will mature in May 2022. A portion of the May 2022 Senior Notes was used to exchange for all of the outstanding USD160,000,000 senior notes due October 2019, i.e. the 2018 senior notes due October 2019.

In August 2019, the Company issued senior notes with a principal amount of USD25,000,000 (equivalent to approximately RMB176,425,000) due in May 2022 which were consolidated with and formed a single series with the May 2022 Senior Notes.

In October 2020, the Company repurchased May 2022 Senior Notes in an aggregate principal amount of USD135,000,000 (equivalent to approximately RMB904,878,000), representing 54% of the aggregate principal amount of the notes originally issued.

- (c) In June 2020, the Company issued senior notes (the “June 2021 Senior Notes”) with a principal amount of USD120,000,000 (equivalent to approximately RMB849,012,000), bearing interest at a fixed interest rate of 11.75% per annum and will mature in June 2021.

In July 2020, the Company issued senior notes with a principal amount of USD30,000,000 (equivalent to approximately RMB209,883,000), which were consolidated with and formed a single series with the June 2021 Senior Notes.

- (d) In October 2019, the Company issued senior notes (the “February 2023 Senior Notes”) with a principal amount of USD200,000,000 (equivalent to approximately RMB1,413,800,000), bearing interest at a fixed interest rate of 13.75% per annum and will mature in February 2023.

In November 2019, the Company issued senior notes with a principal amount of USD37,500,000 (equivalent to approximately RMB263,336,000), which were consolidated with and formed a single series with the February 2023 Senior Notes.

In January 2020, the Company issued senior notes with a principal amount of USD30,000,000 (equivalent to approximately RMB209,599,000), which were consolidated with and formed a single series with the February 2023 Senior Notes.

In February 2020, the Company issued senior notes with a principal amount of USD60,000,000 (equivalent to approximately RMB420,348,000), which were consolidated with and formed a single series with the February 2023 Senior Notes.

- (e) In October 2020, the Company issued senior notes (the “October 2022 Senior Notes”) with a principal amount of USD200,000,000 (equivalent to approximately RMB1,314,260,000), bearing interest at a fixed interest rate of 12% per annum and will mature in October 2022.

28 SENIOR NOTES (CONTINUED)

- (f) In September 2020, the Company issued senior notes (the “April 2023 Senior Notes”) with a principal amount of USD200,000,000 (equivalent to approximately RMB1,340,560,000), bearing interest at a fixed interest rate of 12.5% per annum and will mature in April 2023.

In November 2020, the Company issued senior notes with a principal amount of USD100,000,000 (equivalent to approximately RMB657,130,000), which were consolidated with and formed a single series with the April 2023 Senior Notes.

- (g) Certain senior notes contain a liability component and early redemption options:
The holders of these senior notes have the right, at their options, to require the Company to repurchase for all or any portion of the principal on designated repurchase dates, at purchase prices ranging from 100% to 102.795% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

As at 31 December 2020, these put options have been recognised at fair value as derivative financial instruments in the consolidated financial statements at the amount of RMB190,913,000 (2019: RMB238,387,000).

- (h) Early redemption call options:

The Company has the right, at its option, to redeem the above senior notes in whole but not in part of the respective principal amount at any time prior to the mature date, at a redemption price equal to 100% of the respective principal amount, plus accrued and unpaid interest, if any, to the date of redemption.

The Company has the right, at its option, to redeem up to 35% of the June 2021 Senior Notes, February 2023 Senior Notes, October 2022 Senior Notes and April 2023 Senior Notes at any time prior to the mature dates, at redemption prices ranging from 111.75% to 113.75% of the respective principal amount, plus accrued and unpaid interest, if any, to the date of redemption.

As at 31 December 2020, these call options were not recognised as derivative financial instruments in the consolidated statement of financial position since their fair value amounts are immaterial.

- (i) The fair values of the senior notes as at 31 December 2020 were approximately RMB8,783,497,000 (2019: RMB4,962,892,000). The fair value is calculated using the market prices of the senior notes on the date of consolidated statement of financial position.

29 SHARE CAPITAL

| | Number of shares | Nominal value HKD'000 | RMB'000 |
|--|---------------------|-----------------------------|---------|
| Ordinary shares of HKD0.01 each | | | |
| Authorised | | | |
| At 1 January 2019 and 31 December 2019 and 31 December 2020 | 10,000,000,000 | 100,000 | |
| Issued and fully paid | | | |
| At 1 January 2020 | 3,944,252,161 | 39,443 | 33,870 |
| Issue of shares upon scrip dividend scheme (a) | 111,482,462 | 1,114 | 1,006 |
| At 31 December 2020 | 4,055,734,623 | 40,557 | 34,876 |
| At 1 January 2019 | 2,510,971,802 | 25,110 | 21,083 |
| Issue of shares for acquisition of Chuangyuan Group | 50,180,189 | 502 | 434 |
| Issue of shares upon scrip dividend scheme | 5,140,695 | 51 | 45 |
| Issue of shares for acquisition of Huiyuan Group | 1,377,959,475 | 13,780 | 12,308 |
| At 31 December 2019 | 3,944,252,161 | 39,443 | 33,870 |

- (a) Share scrip alternative were offered in respect of dividend declared during the year (Note 14). On 31 July 2020, 111,482,462 shares were issued at HKD3.114 each to shareholders who had elected to receive new shares in lieu of cash dividend in respect of the 2019 final dividend under the scrip dividend scheme for a total proceeds of HKD347,157,000 (equivalent to RMB313,377,000) (2019:RMB15,616,000). The amounts received in excess of share capital issued are taken to share premium account.

30 RESERVES

| | Share premium RMB'000 | Special reserve RMB'000 | Other reserves RMB'000 | Translation reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|--|--------------------------|----------------------------|---------------------------|--------------------------------|--------------------------------------|------------------------------|-------------------|
| At 1 January 2020 | 7,189,580 | (4,597,687) | 260,642 | (1,124) | 580,848 | 6,393,351 | 9,825,610 |
| Total comprehensive income for the year | - | - | - | (1,821) | - | 3,275,473 | 3,273,652 |
| Dividends (Note 14) | (391,651) | - | - | - | - | - | (391,651) |
| Issue of shares upon scrip dividend scheme (Note 29) | 312,371 | - | - | - | - | - | 312,371 |
| Transfer to reserves | - | - | - | - | 516,477 | (516,477) | - |
| Capital contribution from non-controlling interests (Note 36) | - | - | 592,377 | - | - | - | 592,377 |
| Acquisitions of interests in subsidiaries (Note 36(d)) | - | - | (29,005) | - | - | - | (29,005) |
| At 31 December 2020 | 7,110,300 | (4,597,687) | 824,014 | (2,945) | 1,097,325 | 9,152,347 | 13,583,354 |
| At 1 January 2019 | 3,331,886 | (190,118) | 231,998 | (3,635) | 508,523 | 5,166,778 | 9,045,432 |
| Total comprehensive income for the year | - | - | - | 2,511 | - | 2,050,664 | 2,053,175 |
| Dividends (Note 14) | (248,054) | - | - | - | - | - | (248,054) |
| Issue of shares upon scrip dividend scheme (Note 29) | 15,571 | - | - | - | - | - | 15,571 |
| Deemed disposals of interest in subsidiaries without loss of control | - | - | 28,644 | - | - | - | 28,644 |
| Dividend paid by entities under common control before acquisition | - | - | - | - | - | (751,766) | (751,766) |
| Issue of shares for acquisitions of entities under common control | 4,090,177 | (4,102,919) | - | - | - | - | (12,742) |
| Acquisitions of entities under common control | - | (304,650) | - | - | - | - | (304,650) |
| Transfer to reserves | - | - | - | - | 72,325 | (72,325) | - |
| At 31 December 2019 | 7,189,580 | (4,597,687) | 260,642 | (1,124) | 580,848 | 6,393,351 | 9,825,610 |

31 CASH FLOW INFORMATION

(a) Cash generated from operations:

| | <i>Note</i> | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------|------------------------|-----------------|
| Operating activities | | | |
| Profit before taxation | | 6,049,004 | 4,789,537 |
| Adjustments for: | | | |
| Interest income | 8 | (341,968) | (293,029) |
| Finance costs | 10 | 317,641 | 282,698 |
| Net impairment reversal/(losses) on financial assets | 3(b) | 27,974 | (19,942) |
| Share of results of investments accounted for using the equity method | 18 | (125,041) | (82,056) |
| Depreciation and amortisation | 12 | 31,507 | 15,294 |
| Foreign exchange loss (gain), net | 9 | (697,355) | 61,144 |
| Losses on disposal of subsidiaries | 9 | – | 39,709 |
| Gains on disposal of joint ventures | 9 | (7,674) | (21,712) |
| Gains arising from bargain purchase | 9 | (67,453) | – |
| (Gains)/losses on disposal of financial assets at fair value through profit or loss | 9 | (756) | 15,232 |
| Losses on disposal of property and equipment | 9 | – | 5 |
| Fair value change on investment properties | 16 | 177,503 | (437,238) |
| Revaluation gain upon transfer of inventories of properties to investment properties | 16 | (21,152) | – |
| Fair value change on derivative financial instruments | 9 | (54,053) | 55,357 |
| Fair value change on financial assets at fair value through profit or loss | | (3,694) | 80,378 |
| Operating cash flows before movements in working capital | | 5,284,483 | 4,485,377 |
| Decrease in inventories of properties | | 2,066,075 | 629,197 |
| Decrease in trade and other receivables | | 1,798,493 | 1,737,054 |
| Decrease/(increase) in financial assets at fair value through profit or loss | | 51 | (78,717) |
| Increase/(decrease) in trade and other payables | | (1,142,273) | 917,676 |
| Increase/(decrease) in pre-sale deposits received | | (6,367,298) | 1,139,491 |
| Decrease/(increase) in restricted bank deposits | | 985,020 | (208) |
| Cash generated from operations | | 2,624,551 | 8,829,870 |

31 CASH FLOW INFORMATION (CONTINUED)

(b) In the consolidated statement of cash flow, proceeds from disposals of property and equipment comprise:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Net book amount disposed of (<i>Note 17</i>) | 526 | 1,270 |
| Losses on disposals (<i>Note 9</i>) | – | (5) |
| Proceeds | 526 | 1,265 |

(c) Non-cash investing and financing activities

Major non-cash transactions during the year represented the payment of dividend under scrip dividend scheme (*Note 14*).

31 CASH FLOW INFORMATION (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

| | Lease liabilities RMB'000 | Bank and other borrowings RMB'000 | Senior notes RMB'000 | Advances from non-controlling interests RMB'000 | Advance from related parties RMB'000 | Derivative financial instruments RMB'000 | Total RMB'000 |
|---|------------------------------|--------------------------------------|-------------------------|--|---|---|-------------------|
| Net debt as at 1 January 2020 | 10,914 | 12,130,179 | 5,274,776 | 729,885 | 234,960 | 238,387 | 18,619,101 |
| Cash flows | | | | | | | |
| – Financing cash flows | (7,619) | (1,546,888) | 3,784,133 | (120,686) | 1,360,968 | – | 3,469,908 |
| – Interest paid | – | (1,515,912) | (946,889) | – | – | – | (2,462,801) |
| Non-cash flows | | | | | | | |
| – Acquisitions of subsidiaries | – | 2,524,100 | – | 180,520 | – | – | 2,704,620 |
| – Transferred from amounts due to third parties upon acquisition of a joint venture | – | – | – | – | 219,403 | – | 219,403 |
| – Elimination against amounts due from related parties | – | – | – | – | (855,823) | – | (855,823) |
| – Derivative liability component of senior notes | – | – | (51,434) | – | – | 51,434 | – |
| – Change in fair value of derivative financial instrument | – | – | – | – | – | (54,053) | (54,053) |
| – Extinguish upon repurchasing the senior notes | – | – | 30,585 | – | – | (30,585) | – |
| – Foreign exchange translation | – | (236,120) | (560,884) | – | – | (14,270) | (811,274) |
| – Interest expenses | 806 | 1,277,268 | 1,222,730 | – | – | – | 2,500,804 |
| – Lease contract modification | 5,494 | – | – | – | – | – | 5,494 |
| Net debt as at 31 December 2020 | 9,595 | 12,632,627 | 8,753,017 | 789,719 | 959,508 | 190,913 | 23,335,379 |
| Adoption of HKFRS 16 | 13,005 | – | – | – | – | – | 13,005 |
| Net debt as at 1 January 2019 | 13,005 | 14,800,921 | 7,212,509 | 843,830 | 682,959 | – | 23,553,224 |
| Cash flows | | | | | | | |
| – Financing cash flows | (2,641) | (2,670,653) | (1,913,145) | (113,945) | (447,999) | – | (5,148,383) |
| – Interest paid | – | (1,243,160) | (533,330) | – | – | – | (1,776,490) |
| Non-cash flows | | | | | | | |
| – Derivative liability component of senior notes | – | – | (179,897) | – | – | 179,897 | – |
| – Change in fair value of derivative financial instrument | – | – | – | – | – | 55,357 | 55,357 |
| – Foreign exchange translation | – | (89) | 67,098 | – | – | 3,133 | 70,142 |
| – Interest expenses | 550 | 1,243,160 | 621,541 | – | – | – | 1,865,251 |
| Net debt as at 31 December 2019 | 10,914 | 12,130,179 | 5,274,776 | 729,885 | 234,960 | 238,387 | 18,619,101 |

32 RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in defined contribution retirement schemes administrated by the local municipal government. The Company's PRC subsidiaries contribute funds which are calculated on certain percentage of the employee salary as required by local municipal government to the schemes to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The expense of RMB12,349,807 (2019: RMB24,812,000) recognised in employee benefit expenses represents contribution payable to these plans by the Group at rates specified in the rules of the plans.

33 PLEDGE OF ASSETS

The following assets were pledged to secure mortgage guarantees provided to customers and certain banking and other facilities granted to the Group at the end of the year:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-------------------|
| Inventories of properties | 15,919,251 | 10,447,366 |
| Investment properties | 3,462,100 | 2,478,600 |
| Pledged bank deposits | 876,111 | 259,083 |
| Property and equipment | 72,395 | 72,312 |
| Financial assets at fair value through profit or loss | 16,604 | 14,866 |
| | 20,346,461 | 13,272,227 |

34 COMMITMENTS

As at 31 December 2020, the Group had the following commitments:

Commitments for capital expenditures

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Contracted but not provided for: | | |
| Investments accounted for using the equity method | 143,774 | — |
| Investment properties under construction | 622,471 | — |
| Acquisitions of entities | 269,811 | — |

35 FINANCIAL GUARANTEES

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|-------------------|-----------------|
| Mortgage guarantees | 10,776,325 | 13,289,638 |

The Group provided guarantees in respect of mortgage bank loans granted to purchasers of the Group's properties. Guarantees are given to banks with respect of loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the purchasers obtaining the relevant building ownership certificate and completion of the relevant mortgage registration.

In the opinion of the directors of the Company, the fair values of these financial guarantee contracts are insignificant at initial recognition and at relevant reporting dates, accordingly no value has been recognised for these contracts. Refer Note 3(b) for credit risk assessment on these contracts.

36 TRANSACTION WITH NON-CONTROLLING INTERESTS

The aggregate effects of transactions with non-controlling interests on the equity attributable to owners of the Group for the year ended 31 December 2020 are as follows:

- (a) On 9 December 2020, a subsidiary of the Group, Jiayuan Services, issued 150,000,000 new ordinary shares in its initial public offering on the Stock Exchange at the price of HKD3.86 per share, and raised gross proceeds of approximately HKD579,000,000 (equivalent to approximately RMB486,964,000). After deduction the issuance cost of RMB32,355,000, the net proceeds of the issuance was RMB454,609,000. As a result, the Company's equity interest in Jiayuan Services was diluted from 100% to 75% and Jiayuan Services remains a subsidiary of the Company after its listing. The 25% of the net assets of Jiayuan Services after above issue of share of RMB125,296,000 was recorded as non-controlling interests. The difference between the net proceeds and the carrying amount of non-controlling interests of RMB329,313,000 was recorded as a credit to the other reserves.
- (b) During the year, a third party injected RMB500,000,000 to a subsidiary of the Group without loss of control to obtain 30% equity interests in the subsidiary. The Group recognised an increase in reserve of RMB263,064,000 and increase in non-controlling interests of RMB236,936,000.
- (c) During the year, certain subsidiaries were established by the Group with non-controlling shareholdings injected a total of RMB504,445,000 as paid in capital to the subsidiaries.
- (d) During the year, the Group acquired additional equity interests in a subsidiary from the non-controlling interests for a consideration of RMB60,000,000. The Group recognised a decrease in reserve of RMB29,005,000 and decrease in non-controlling interests of RMB30,995,000.
- (e) On 20 October 2020, a subsidiary of the Group declared and paid dividend of RMB3,500,000 to the non-controlling interests.

37 BUSINESS COMBINATIONS

- (a) In December 2020, the Group acquired 51% equity interests in Zhengzhou Mingchuan Real Estate Development Co., Ltd (“Zhengzhou Mingchuan”) at a consideration of RMB616,000,000. Details of the purchase consideration and the financial information of Zhengzhou Mingchuan on the acquisition date are summarised as follows:

| | RMB'000 |
|---|----------------|
| Consideration | |
| Settled in 2020 | 23,780 |
| Outstanding as at 31 December 2020 | 592,220 |
| | 616,000 |
| Total cash consideration | 616,000 |
| Total recognised amounts of identifiable assets acquired and liabilities assumed: | |
| Property and equipment | 197 |
| Inventories of properties | 3,354,633 |
| Trade and other receivables | 130,205 |
| Restricted/pledged bank deposits | 421,939 |
| Cash and cash equivalent | 244,187 |
| Trade and other payables | (17,805) |
| Pre-sale deposits received | (2,777,579) |
| Deferred tax liabilities | (147,934) |
| Total identifiable net assets | 1,207,843 |
| Non-controlling interests | (591,843) |
| | 616,000 |
| Cash flows on business combination, net of cash acquired: | |
| – Cash consideration paid | (23,780) |
| – Cash and cash equivalents in the subsidiary acquired | 244,187 |
| Net cash inflow on acquisition | 220,407 |

The acquired business contributed total revenue of nil and net profit of nil to the Group for the period from its respective acquisition date to 31 December 2020. Had the acquisition been completed on 1 January 2020, revenue of the Group for the year would be RMB18,363,185,000 and net profit of the Group for the year would be RMB3,461,335,000.

The Group has chosen to recognise the non-controlling interests at its fair value for this acquisition.

37 BUSINESS COMBINATIONS (CONTINUED)

- (b) Before September 2020, the Group held 51% equity interest of Nanjing Kangxing which was a joint venture of the Group. In September 2020, the Group acquired additional 15% equity interests in Nanjing Kangxing from one of the shareholders for a consideration of RMB16,825,000. As a result, the equity interest of Nanjing Kangxing held by the Group increased from 51% to 66% and Nanjing Kangxing became a subsidiary of the Group from then. The transaction was treated as disposal of a joint venture and acquisition a subsidiary.

Details of the consideration and the financial information of Nanjing Kangxing on the acquisition date are summarised as follows:

| | RMB'000 |
|--|-------------|
| Consideration | |
| – Cash consideration paid | 15,000 |
| – Cash consideration outstanding | 1,825 |
| – Fair value of investments in a joint venture held before business combination | 264,327 |
| | 281,152 |
| Total recognised amounts of identifiable assets acquired and liabilities assumed | |
| Property and equipment | 1,294 |
| Investment properties | 99,800 |
| Inventories of properties | 4,663,667 |
| Prepaid income tax | 64,211 |
| Trade and other receivables | 619,407 |
| Restricted/pledged bank deposits | 438,711 |
| Cash and cash equivalents | 14,343 |
| Trade and other payables | (1,020,852) |
| Pre-sale deposits received | (1,825,211) |
| Deferred tax liabilities | (12,982) |
| Bank and other borrowings | (2,524,100) |
| Total identifiable net assets | 518,288 |
| Non-controlling interests | (176,218) |
| | 342,070 |
| Gains arising from bargain purchase | 60,918 |
| | 264,327 |
| Fair value of investments in a joint venture held before business combination | 264,327 |
| Less: carrying amount of investments in a joint venture held before business combination | (256,745) |
| | 7,582 |
| Cash flows on business combination, net of cash acquired: | |
| – cash consideration paid | (15,000) |
| – cash and cash equivalents in the subsidiaries acquired | 14,343 |
| | (657) |
| Net cash outflow on acquisition | (657) |

37 BUSINESS COMBINATIONS (CONTINUED)

(b) (Continued)

The acquired business contributed total revenue of nil and net loss of RMB6,507,000 to the Group for the period from its acquisition date to 31 December 2020. Had the acquisition been completed on 1 January 2020, revenue of the Group for the year would be RMB18,363,185,000 and net profit of the Group for the year would be RMB3,528,783,000.

Gains arising from bargain purchase was mainly due to the fact that the seller had the intention to exit from its investment in Nanjing Kangxing as the business of Nanjing Kangxing is not synergistic with its own retail business.

The Group has chosen to recognise the non-controlling interests at its fair value for this acquisition.

- (c) Before 30 December 2020, the Group held 51% equity interest of Chongqing Jiabao which was a joint venture of the Group. As at 30 December 2020, the Group and Chongqing Baodi Industrial Development Co., Ltd (重慶寶地實業發展有限公司), another third-party shareholder of Chongqing Jiabao, revised the Articles of Chongqing Jiabao resulting that the Group obtained control on Chongqing Jiabao. The transaction was treated as a business combination of subsidiary.

Details of the consideration and the financial information of Chongqing Jiabao on the acquisition date are summarised as follows:

| | RMB'000 |
|---|---------|
| Consideration | |
| – Fair value of investments in a joint venture held before business combination | 6,096 |
| Total recognised amounts of identifiable assets acquired and liabilities assumed | |
| Property and equipment | 310 |
| Intangible assets – property management contracts | 240 |
| Trade and other receivables | 11,310 |
| Cash and cash equivalent | 2,803 |
| Trade and other payables | (2,423) |
| Current income tax liabilities | (227) |
| Deferred tax liabilities | (60) |
| Total identifiable net assets | 11,953 |
| Non-controlling interests | (5,857) |
| | 6,096 |
| Cash flows on business combination, net of cash acquired | |
| – cash considerations | – |
| – cash and cash equivalents in the subsidiary acquired | 2,803 |
| Net cash inflow on acquisitions | 2,803 |

37 BUSINESS COMBINATIONS (CONTINUED)

(c) (Continued)

The acquired business contributed total revenue of nil and net profit of nil to the Group for the period from its respective acquisition date to 31 December 2020. Had the acquisition been completed on 1 January 2020, revenue of the Group for the year would be RMB18,384,000,000 and net profit of the Group for the year would be RMB3,533,680,000.

Upon completion of the transaction on 30 December 2020, the difference of RMB92,000 between the fair value of RMB6,096,000 with the carrying amount of investment in Chongqing Jiabao of RMB6,004,000 was recognised in other gains.

The Group has chosen to recognise the non-controlling interests at its fair value for this acquisition.

38 RELATED PARTY TRANSACTIONS AND BALANCES

The Company is ultimately controlled by Mr. Shum Tin Ching, the Ultimate Shareholder.

(a) Related party transactions

Apart from those related party transactions disclosed above in the consolidated financial statements, the following transactions were carried out with related parties.

| | For the year ended 31 December | |
|---|--------------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| (i) Entities controlled by the Ultimate Shareholder and the close family members of the Ultimate Shareholder | | |
| Procurement of intelligent system equipment | 63,521 | 35,947 |
| Procurement of architectural design services | 9,351 | 30,881 |
| Provision of property management services | 46,828 | 36,894 |
| Procurement of electrical appliances | 6,305 | 14,000 |
| Procurement of consulting services | – | 12,615 |
| Subscription the Company's senior notes | – | 534,377 |
| Provision of financial guarantees to the Group | 11,074,445 | 6,470,800 |
| (ii) Entities jointly controlled by Ultimate Shareholder | | |
| Provision of value-added services to property developers | 512 | – |
| (iii) Joint ventures | | |
| Provision of property management services | 4,423 | 1,155 |
| Provision of financial guarantees to the Group | 9,079 | – |

As at 31 December 2020, 100% equity interests of a company controlled by the Ultimate Shareholder have been pledged to secure bank loans of RMB306,661,000 of the Group (2019: nil).

The prices for the above transactions were determined in accordance with the terms of the underlying agreements.

38 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(b) Key management compensation**

| | For the year ended 31 December | |
|--------------------------|--------------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Short term benefits | 21,038 | 14,015 |
| Post-employment benefits | 205 | 133 |
| | 21,243 | 14,148 |

The remuneration of directors and other members of key management is determined with reference to performance of individuals and market trends.

38 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(c) Related party balances**

At the end of the reporting period, the Group has the following significant balances with related parties:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| (i) Entities controlled by Ultimate Shareholder | | |
| Trading nature and included in: | | |
| – Trade receivables | 54,672 | 22,195 |
| – Other receivables | 3,381 | 2,472 |
| – Prepayments | 2,311 | 1,218 |
| – Trade payables | 61,945 | 72,572 |
| – Other payables | 2,251 | 228 |
| – Pre-sale deposits | 236 | 968 |
| Non-trading nature and included in: | | |
| – Other payables | 605,705 | 142,580 |
| (ii) Joint ventures | | |
| Trading nature and included in: | | |
| – Trade receivables | – | 1,020 |
| – Other receivables | – | 1,045 |
| – Trade payables | – | 2,792 |
| Non-trading nature and included in: | | |
| – Other receivables | 1,104,746 | 2,222,991 |
| – Other payables | 130,800 | – |
| (iii) Associates | | |
| Non-trading nature and included in: | | |
| – Other receivables | 43,432 | – |
| – Other payables | 223,003 | 92,380 |
| (iv) Key management of the Group | | |
| Non-trading nature and included in: | | |
| – Other receivables | – | 2,724 |

The above balances due from related parties are interest free, unsecured and repayable on demand. The amounts due from joint ventures in 2019 included RMB400,000,000 which bore interest at a rate of 8.5% per annum.

39 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) Statement of financial position

| | As at 31 December | |
|--|-------------------|-------------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Non-current assets | | |
| Investments in subsidiaries | 5,221,852 | 4,921,852 |
| Amounts due from subsidiaries | – | 1,422,969 |
| | 5,221,852 | 6,344,821 |
| Current assets | | |
| Other receivables and prepayments | 644,135 | 1,273,573 |
| Amounts due from subsidiaries | 9,087,586 | 4,258,371 |
| Cash and cash equivalent | 3,377 | 10,232 |
| | 9,735,098 | 5,542,176 |
| Current liabilities | | |
| Other payables and accrued expenses | 91,482 | 216,835 |
| Amounts due to subsidiaries | – | 1,282 |
| Bank and other borrowings | 33,595 | – |
| Derivative financial instruments | 190,913 | – |
| Senior notes | 5,687,872 | 314,084 |
| | 6,003,862 | 532,201 |
| Net current assets | 3,731,236 | 5,009,975 |
| Total assets less current liabilities | 8,953,088 | 11,354,796 |
| Equity | | |
| Share capital (Note 29) | 34,876 | 33,870 |
| Reserves (b) | 5,580,002 | 6,121,847 |
| Total equity | 5,614,878 | 6,155,717 |
| Non-current liabilities | | |
| Senior notes | 3,065,145 | 4,960,692 |
| Derivative financial instruments | – | 238,387 |
| Bank and other borrowings | 273,065 | – |
| | 8,953,088 | 11,354,796 |

The statement of financial position of the Company was approved by the Board of Directors on 29 March 2021 and was signed on its behalf:

Zhang Yi
Director

Cheuk Hiu Nam
Director

39 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)**(b) Reserves movements of the Company**

| | Share premium RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|-----------------------------|----------------------------------|------------------|
| At 1 January 2020 | 7,189,580 | (1,067,733) | 6,121,847 |
| Dividends (Note 14) | (391,651) | – | (391,651) |
| Issue of shares upon scrip dividend scheme (Note 29) | 312,371 | – | 312,371 |
| Loss and total comprehensive loss for the year | – | (462,565) | (462,565) |
| At 31 December 2020 | 7,110,300 | (1,530,298) | 5,580,002 |
| At 1 January 2019 | 3,331,886 | (399,725) | 2,932,161 |
| Issue of shares for acquisition of entities under common control | 4,090,177 | – | 4,090,177 |
| Dividends (Note 14) | (248,054) | – | (248,054) |
| Issue of shares upon scrip dividend scheme (Note 29) | 15,571 | – | 15,571 |
| Loss and total comprehensive loss for the year | – | (668,008) | (668,008) |
| At 31 December 2019 | 7,189,580 | (1,067,733) | 6,121,847 |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies:

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2020 | 2019 | | | |
| Directly held by the Company: | | | | | | |
| Jiayuan Investment Management Co., Ltd 佳源投資管理有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Indirectly held by the Company: | | | | | | |
| Yangzhou Boyuan Investment Management Co., Ltd 揚州博源投資管理有限公司 | PRC | 100% | 100% | RMB900,000,000 | PRC | Investment holding |
| Nanjing Jiayuan Commercial Management Co., Ltd 南京佳源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Yangzhou Guoyuan Property Development Co., Ltd 揚州國源房地產開發有限公司 | PRC | 100% | 100% | RMB100,000,000 | PRC | Property development |
| Jiayuan (Hong Kong) Holdings Limited 佳源(香港)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Chuangyuan Holdings Limited 創源控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Huiyuan Investment Holdings Limited 徽源投資控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Hong Kong Jia Yuan Holdings Limited 香港佳源集團有限公司 | Hong Kong | 100% | 100% | HKD990,000 | Hong Kong | Investment and property holding |
| Xiangyuan Property Development Limited 祥源地產開發有限公司 | Macau | 100% | 100% | Pataca de Macau 25,000 | Macau | Property development and investment |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2020 | 2019 | | | |
| Ninggang Jiayuan Investment Consulting Group Limited 寧港佳源投資諮詢集團有限公司 | PRC | 100% | 100% | RMB50,000,000 | PRC | Investment holding |
| Taixing Mingyuan Property Development Co., Ltd 泰興市明源房地產開發有限公司 | PRC | 100% | 100% | USD10,000,000 | PRC | Property development |
| Guo Xiang Property Co., Ltd 國祥房地產有限公司 | Hong Kong | 100% | 100% | HKD10,000 | Hong Kong | Investment holding |
| Shenzhen Gangyuan Investment Consulting Co., Ltd 深圳港源投資諮詢有限公司 | PRC | 100% | 100% | RMB100,000,000 | PRC | Investment holding |
| Hengli Property Nantong Limited 恒力房地產南通有限公司 | PRC | 100% | 100% | RMB607,750,000 | PRC | Property development and investment |
| Yangzhou Xiangjiang New City Centre Property Limited 揚州香江新城市中心置業有限公司 | PRC | 100% | 100% | RMB400,000,000 | PRC | Property development and investment |
| Yangzhou Yurun Property Development Co., Ltd 揚州雨潤房地產開發有限公司 | PRC | 100% | 100% | RMB100,000,000 | PRC | Property development |
| Yangzhou Gangyuan Property Management Limited ("Yangzhou Gang Yuan") 揚州港源置業管理有限公司 | PRC | 70% | 70% | RMB10,000,000 | PRC | Property development |
| Taizhou Jia Yuan Property Development Co., Ltd 泰州市佳源房地產開發有限公司 | PRC | 100% | 100% | RMB140,000,000 | PRC | Property development and investment |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|-------------------------------------|
| | | 2020 | 2019 | | | |
| Taixing Guangyuan Property Development Co., Ltd 泰興市廣源房地產開發有限公司 | PRC | 100% | 100% | RMB300,000,000 | PRC | Property development and investment |
| Suqian Jia Yuan Property Development Co., Ltd ("Suqian Jia Yuan") 宿遷市佳源房地產開發有限公司 | PRC | 90% | 90% | RMB60,000,000 | PRC | Property development |
| Haiyi International Land (Taicang) Co., Ltd 海藝國際置地(太倉)有限公司 | PRC | 100% | 100% | RMB150,000,000 | PRC | Property development |
| Nanjing Jiafeng Consulting Management Co., Ltd 南京嘉豐諮詢管理有限公司 | PRC | 100% | 100% | RMB5,000,000 | PRC | Investment holding |
| Enping Empire Resort and Spa Development Limited ("Enping Empire") 恩平市帝都溫泉旅遊區發展有限公司 | PRC | 90% | 78.3% | RMB133,000,000 | PRC | Property development |
| Nanjing Rongjia Shanju Construction Development Co., Ltd 南京融佳善居建設發展有限公司 | PRC | 60% | 60% | RMB20,000,000 | PRC | Property development |
| Hefei Shuoyuan Real Estate Development Co., Ltd 合肥市碩源房地產開發有限公司 | PRC | 100% | 60% | RMB100,000,000 | PRC | Property development |
| Xinjiang Jiayuan Building Development Co. Ltd 新疆佳源創建房地產開發有限公司 | PRC | 90% | 63% | RMB216,300,000 | PRC | Property development and investment |
| Shenzhen Xiangyuan Industry Co., Ltd 深圳市翔源實業有限公司 | PRC | 100% | 70% | RMB100,000,000 | PRC | Property development |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|-------------------------------------|
| | | 2020 | 2019 | | | |
| Yangzhou Haoyuan Real Estate Development Co., Ltd 揚州浩源房地產開發有限公司 | PRC | 100% | 100% | RMB20,000,000 | PRC | Property development |
| Nanjing Xinhaoning Property Development Co., Ltd 南京新浩寧房地產開發有限公司 | PRC | 70% | 100% | USD141,428,600 | PRC | Property development |
| Nanjing Guangyuan science and Technology Industrial Park Management Co., Ltd 南京廣源科技產業園管理有限公司 | PRC | 100% | 100% | USD150,000,000 | PRC | Industrial Park Management |
| Shanghai Jiayuan Hucheng Real Estate Group Co., Ltd 上海佳源滬城房地產集團有限公司 | PRC | 90% | 90% | RMB1,000,000,000 | PRC | Investment holding |
| Anhui Mingyuan Enterprise Management Consulting Co., Ltd 安徽明源企業管理諮詢有限公司 | PRC | 100% | 100% | RMB30,000,000 | PRC | Enterprise Management Consulting |
| Shanghai Dingyuan Property Development Co., Ltd ("Shanghai Dingyuan") 上海定源房地產有限公司 | PRC | 90% | 90% | RMB10,000,000 | PRC | Property development and investment |
| Anhui Jiayuan Real Estate Group Co., Ltd 安徽佳源房地產集團有限公司 | PRC | 100% | 100% | RMB200,000,000 | PRC | Property development and investment |
| Zhejiang Jiayuan Anhui Real Estate Development Co., Ltd 浙江佳源安徽房地產開發有限公司 | PRC | 100% | 100% | RMB200,000,000 | PRC | Property development |
| Hexian Jiayuan Real Estate Development Co., Ltd 和縣佳源房地產開發有限公司 | PRC | 78.5% | 78.5% | RMB50,000,000 | PRC | Property development |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|--|------------------------|---|-------|--|---------------------|----------------------|
| | | 2020 | 2019 | | | |
| Guoyang Xinggang Real Estate Co., Ltd 渦陽縣星港置業有限公司 | PRC | 91% | 91% | RMB200,000,000 | PRC | Property development |
| Bengbu Mingyuan Real Estate Development Co., Ltd 蚌埠明源房地產開發有限公司 | PRC | 82.5% | 82.5% | RMB171,250,000 | PRC | Property development |
| Lujiang Jiayuan Real Estate Development Co., Ltd 廬江縣佳源房地產開發有限公司 | PRC | 42% | 42% | RMB100,000,000 | PRC | Property development |
| Anhui Shuyuan Real Estate Development Co., Ltd 安徽墅源房地產開發有限公司 | PRC | 100% | 100% | RMB200,000,000 | PRC | Property development |
| Shanghai Xiangyuan Real Estate Co., Ltd 上海祥源房地產有限公司 | PRC | 90% | 100% | RMB5,010,000 | PRC | Property development |
| Jiayuan Capital Limited 佳源資本有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Yangzhou Chongyuan Real Estate Development Co., Ltd 揚州崇源房地產開發有限公司 (i) | PRC | 100% | – | RMB20,000,000 | PRC | Property development |
| Yangzhou Fengyuan Real Estate Development Co., Ltd 揚州豐源房地產開發有限公司 (i) | PRC | 100% | – | RMB20,000,000 | PRC | Property development |
| Nanjing Kangxing Technology Industrial Park Operation Management Co., Ltd 南京康星科技產業園運營管理有限公司 (i) | PRC | 66% | 51% | RMB100,000,000 | PRC | Property development |

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2020, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|--|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2020 | 2019 | | | |
| Changshu Rongyuan Real Estate Development Co., Ltd 常熟榮源房地產開發有限公司 (i) | PRC | 100% | – | RMB20,000,000 | PRC | Property development |
| Hefei Chongyuan Real Estate Development Co., Ltd 合肥崇源房地產開發有限公司 (i) | PRC | 100% | – | RMB100,000,000 | PRC | Property development |
| Anhui Shanyuan Real Estate Development Co., Ltd 安徽善源房地產開發有限公司 (i) | PRC | 100% | – | RMB100,000,000 | PRC | Property development |
| Hefei Deyuan Real Estate Development Co., Ltd 合肥德源房地產開發有限公司 (i) | PRC | 51% | – | RMB100,000,000 | PRC | Property development |
| Hefei Suyuan Real Estate Development Co., Ltd 合肥溯源房地產開發有限公司 (i) | PRC | 100% | – | RMB100,000,000 | PRC | Property development |
| Zhengzhou Mingchuan Real Estate Development Co., Ltd 鄭州市名川房地產開發有限公司 (i) | PRC | 51% | – | RMB70,000,000 | PRC | Property development |
| Guangzhou Zhengyuan Real Estate Development Co., Ltd 廣州政源房地產開發有限公司 (i) | PRC | 100% | – | RMB100,000,000 | PRC | Property development |
| Jiayuan Services Holdings Limited 佳源服務控股有限公司 (i) | Cayman Islands | 75% | – | HKD20,000,000 | Hong Kong | Property management |
| Jiayuan South (Shenzhen) Group Co., Ltd 佳源南方(深圳)集團有限公司 | PRC | 100% | 70% | RMB714,285,700 | PRC | Property development and investment |

(i) These subsidiaries are newly established or acquired by the Group during the year.

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

For those subsidiaries with equity interest of 50% or less, as the Group has the rights to variable returns from its involvement with these companies, and has the ability to affect those returns through its majority voting position of the board of directors of these companies and the power to determine the budget, pricing and promotion strategies of these companies. The Group thus has control over these companies.

The English names of the Mainland China companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

The directors of the Company consider that none of the non-controlling interests of the individual subsidiaries were significant to the Group and thus the individual financial information of these subsidiaries is not disclosed.

41 EVENTS AFTER THE REPORTING PERIOD

On 13 January 2021, the Company entered into a sale and purchase agreement with the Ultimate Shareholder whereby the Company conditionally agreed to acquire and the Ultimate Shareholder agreed to sell the 100% equity interest of Luyuan Investment Holdings Limited ("Luyuan"), a company incorporated in the BVI, at the initial consideration of HKD7,247,560,000 (equivalent to approximately RMB6,142,000,000) which will be settled (i) as to HKD3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of convertible bonds by the Company; (ii) as to HKD2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue of 840,000,000 ordinary shares by the Company; and (iii) as to the remaining balance of HKD1,054,920,000 (equivalent to approximately RMB894,000,000) by cash. Luyuan and its subsidiaries are engaged in property development business in the PRC. As at the approval date of these consolidated financial statements, the transaction has not been completed.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Jiayuan International Group Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Jiayuan International Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 199, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of net realisable value of inventories of properties
- Valuation of completed investment properties

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Assessment of net realisable value of inventories of properties</p> <p>Refer to Note 6 'Critical accounting estimates and judgements' and Note 23 'Inventories of properties' to the consolidated financial statements.</p> <p>Inventories of properties of the Group comprised mainly properties under development ("PUD") and properties held for sale ("PHS") amounting to RMB23,648 million and RMB10,463 million respectively as at 31 December 2019. The carrying amounts of PUD and PHS are stated at the lower of cost and net realisable value ("NRV").</p> <p>Determination of NRV of PUD and PHS involved critical accounting estimates on the selling prices, variable selling expenses and, for PUD, the estimated costs to completion. Given the involvement of critical accounting estimates, the assessment of NRV of these properties is considered a key audit matter.</p> | <p>We performed the following audit procedures:</p> <p>(i) Assessed the accuracy and reliability of management's historical NRV assessment by comparing the parameters adopted in previous year to actual sales data in the current year, on a sample basis.</p> <p>(ii) Tested management's key accounting estimates, on a sample basis, for:</p> <ul style="list-style-type: none"> • Selling prices – we compared the estimated selling prices to the prevailing market prices of comparable properties with similar type, size and location, and market conditions. • Variable selling expenses – we compared the estimated selling expenses to selling price percentage with the actual average selling expenses to revenue ratio of the Group in the current year. • Estimated costs to completion for PUD – we compared the amounts to budget approved by management and inspected the related construction contracts; and compared the anticipated completion costs to the actual costs of similar type of completed properties of the Group. <p>We found the key accounting estimates used in the assessment of NRV of inventories of properties were supportable by available evidence.</p> |

KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Valuation of completed investment properties</p> <p>Refer to Notes 6 'Critical accounting estimates and judgements' and Note 17 'Investment properties' to the consolidated financial statements.</p> <p>The carrying amount of total investment properties of the Group was RMB7,842 million at 31 December 2019, of which RMB7,648 million were completed investment properties. Change in fair value of completed investment properties of RMB305 million was recognised in the consolidated income statement for the year.</p> <p>The Group's investment properties are measured at fair value model. Management engaged an independent external valuer to assist them to measure the fair values of investment properties. Valuation of completed investment properties is considered as a key audit matter because the determination of fair values for completed investment properties involved critical accounting judgements and estimates including monthly rentals, term yields and reversionary yields.</p> | <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> (i) Evaluated the competence, capabilities, and objectivity of the independent external valuer engaged by the Group; (ii) Assessed the appropriateness of the valuation methodologies applied with the assistance of our internal valuation experts; (iii) Assessed the reasonableness of relevant key assumptions used in the valuations of completed investment properties including the monthly rental, term yields and reversionary yields, by benchmarking them to relevant comparable data; and (iv) Tested the key inputs used in the valuations, on a sample basis, to supporting evidence including rental contracts, market data and market information of comparable properties obtained from various sources. <p>We found the key judgements and accounting estimates used in the valuation of the completed investment properties were supportable by available evidence.</p> |

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 Cheung Siu Cheong.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 9 March 2020

CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Revenue | 7 | 16,070,171 | 13,616,003 |
| Cost of sales | | (10,828,170) | (9,112,135) |
| Gross profit | | 5,242,001 | 4,503,868 |
| Other income | 9 | 308,478 | 351,707 |
| Other gains and losses | 10 | (141,399) | (179,135) |
| Net impairment reversal/(losses) on financial assets | 4 | 19,942 | (94,764) |
| Fair value change on investment properties | 17 | 437,238 | 365,890 |
| Fair value gain upon transfer of inventories of properties to investment properties | 17 | – | 520,917 |
| Fair value change on financial assets at fair value through profit or loss | | (80,378) | 12,930 |
| Selling and marketing costs | | (303,407) | (358,984) |
| Administrative expenses | | (492,296) | (420,010) |
| Other expenses | | – | (2,266) |
| Finance costs | 11 | (282,698) | (293,400) |
| Share of results of investments accounted for using the equity method | 19 | 82,056 | 86,449 |
| Profit before taxation | | 4,789,537 | 4,493,202 |
| Income tax expense | 12 | (2,329,054) | (2,141,018) |
| Profit for the year | | 2,460,483 | 2,352,184 |
| Profit for the year attributable to: | | | |
| – Owners of the Company | | 2,050,664 | 2,234,821 |
| – Non-controlling interests | | 409,819 | 117,363 |
| | | 2,460,483 | 2,352,184 |
| Earnings per share attributable to owners of the Company (expressed in RMB cents per share) | | | |
| Basic and diluted | 16 | 52.03 | 57.11 |

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Profit for the year | | 2,460,483 | 2,352,184 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| – Exchange differences arising on translation of foreign operations | | 2,511 | (6,087) |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| – Fair value change on investment in equity instruments at fair value through other comprehensive income | | – | 2,681 |
| Other comprehensive income for the year, net of tax | | 2,511 | (3,406) |
| Total comprehensive income for the year | | 2,462,994 | 2,348,778 |
| Total comprehensive income attributable to: | | | |
| – Owners of the Company | | 2,053,175 | 2,233,197 |
| – Non-controlling interests | | 409,819 | 115,581 |
| | | 2,462,994 | 2,348,778 |

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December | |
|---|-------|-------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Non-current assets | | | |
| Investment properties | 17 | 7,841,906 | 7,571,718 |
| Property and equipment | 18 | 132,880 | 133,765 |
| Intangible assets | | 31,328 | 1,487 |
| Right-of-use assets | 3 | 10,694 | – |
| Investments accounted for using the equity method | 19 | 985,051 | 245,465 |
| Financial assets at fair value through profit or loss | 20 | 668,204 | 80,871 |
| Deposits paid for acquisitions | 21 | 1,167,684 | 1,935,423 |
| Deferred tax assets | 22 | 597,494 | 559,179 |
| Trade and other receivables | 24 | 124,934 | 3,909 |
| | | 11,560,175 | 10,531,817 |
| Current assets | | | |
| Inventories of properties | 23 | 34,112,077 | 32,080,889 |
| Trade and other receivables | 24 | 7,177,335 | 10,131,059 |
| Financial assets at fair value through profit or loss | 20 | 168,775 | 707,499 |
| Prepaid income tax | | 563,705 | 513,848 |
| Restricted/pledged bank deposits | 25 | 2,123,101 | 2,103,123 |
| Cash and cash equivalents | 25 | 6,030,412 | 4,599,433 |
| | | 50,175,405 | 50,135,851 |
| Total assets | | 61,735,580 | 60,667,668 |
| Current liabilities | | | |
| Trade and other payables | 26 | 6,395,483 | 6,162,953 |
| Pre-sale deposits received | 27 | 19,940,467 | 17,264,139 |
| Lease liabilities | 3 | 3,597 | – |
| Current income tax liabilities | | 4,628,119 | 3,156,105 |
| Bank and other borrowings | 28 | 4,667,930 | 7,012,996 |
| Senior notes | 29 | 314,084 | 4,477,446 |
| | | 35,949,680 | 38,073,639 |
| Net current assets | | 14,225,725 | 12,062,212 |
| Total assets less current liabilities | | 25,785,900 | 22,594,029 |

| | Notes | As at 31 December | |
|---|-------|-------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Non-current liabilities | | | |
| Bank and other borrowings | 28 | 7,462,249 | 7,787,925 |
| Derivative financial instruments | 29 | 238,387 | – |
| Lease liabilities | 3 | 7,317 | – |
| Pre-sale deposits received | 27 | 500,510 | 647,722 |
| Deferred tax liabilities | 22 | 779,587 | 660,139 |
| Senior notes | 29 | 4,960,692 | 2,735,063 |
| Other payables | 26 | – | 226,500 |
| | | 13,948,742 | 12,057,349 |
| Equity attributable to owners of the Company | | | |
| Share capital | 30 | 33,870 | 21,083 |
| Reserves | | 9,825,610 | 9,045,432 |
| | | 9,859,480 | 9,066,515 |
| Non-controlling interests | | 1,977,678 | 1,470,165 |
| Total equity | | 11,837,158 | 10,536,680 |
| Total equity and non-current liabilities | | 25,785,900 | 22,594,029 |

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 86 to 199 were approved by the Board of Directors on 9 March 2020 and were signed on its behalf.

Zhang Yi
Director

Cheuk Hiu Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|--------------------------|----------------------------|---------------------------|--------------------------------|--------------------------------------|------------------------------|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 | Other reserves RMB'000 | Translation reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2018 (restated) | 20,564 | 3,216,102 | 359,262 | 278,665 | - | 276,792 | 3,742,312 | 7,893,697 | 264,520 | 8,158,217 |
| Profit for the year | - | - | - | - | - | - | 2,234,821 | 2,234,821 | 117,363 | 2,352,184 |
| Other comprehensive income for the year | - | - | 2,011 | - | (3,635) | - | - | (1,624) | (1,782) | (3,406) |
| Total comprehensive income for the year | - | - | 2,011 | - | (3,635) | - | 2,234,821 | 2,233,197 | 115,581 | 2,348,778 |
| Dividends (Note 15) | - | (625,286) | - | - | - | - | - | (625,286) | - | (625,286) |
| Issue of shares upon scrip dividend scheme | 345 | 495,310 | - | - | - | - | - | 495,655 | - | 495,655 |
| Capital injection received by entities under common control before acquisition | - | - | 418,000 | - | - | - | - | 418,000 | - | 418,000 |
| Capital contribution from non-controlling interests | - | - | (17,046) | - | - | - | - | (17,046) | 177,591 | 160,545 |
| Dividend paid by entities under common control before acquisition | - | - | - | - | - | - | (578,624) | (578,624) | (70,578) | (649,202) |
| Acquisitions of non-controlling interests | - | - | - | (46,667) | - | - | - | (46,667) | (11,333) | (58,000) |
| Issue of shares for acquisition of entities under common control | 174 | 245,760 | (615,790) | - | - | - | - | (369,856) | - | (369,856) |
| Acquisition of entities under common control | - | - | (300,000) | - | - | - | - | (300,000) | - | (300,000) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | 1,134,164 | 1,134,164 |
| Disposal of subsidiaries | - | - | (36,555) | - | - | - | - | (36,555) | (139,780) | (176,335) |
| Transfer to reserve | - | - | - | - | - | 231,731 | (231,731) | - | - | - |
| Balance at 31 December 2018 (restated) | 21,083 | 3,331,886 | (190,118) | 231,998 | (3,635) | 508,523 | 5,166,778 | 9,066,515 | 1,470,165 | 10,536,680 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|------------------|--------------------|----------------|---------------------|---------------------------|-------------------|------------------|---------------------------|-------------------|
| | Share capital | Share premium | Special reserve | Other reserves | Translation reserve | Statutory surplus reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 (restated) | 21,083 | 3,331,886 | (190,118) | 231,998 | (3,635) | 508,523 | 5,166,778 | 9,066,515 | 1,470,165 | 10,536,680 |
| Profit for the year | - | - | - | - | - | - | 2,050,664 | 2,050,664 | 409,819 | 2,460,483 |
| Other comprehensive income for the year | - | - | - | - | 2,511 | - | - | 2,511 | - | 2,511 |
| Total comprehensive income for the year | - | - | - | - | 2,511 | - | 2,050,664 | 2,053,175 | 409,819 | 2,462,994 |
| Dividends (Note 15) | - | (248,054) | - | - | - | - | - | (248,054) | - | (248,054) |
| Issue of shares upon scrip dividend scheme (Note 30) | 45 | 15,571 | - | - | - | - | - | 15,616 | - | 15,616 |
| Capital contribution from non-controlling interests (Note 36) | - | - | - | 28,644 | - | - | - | 28,644 | 31,356 | 60,000 |
| Dividend paid by entities under common control before acquisition | - | - | - | - | - | - | (751,766) | (751,766) | (42,259) | (794,025) |
| Issue of shares for acquisitions of entities under common control (Note 1) | 12,742 | 4,090,177 | (4,102,919) | - | - | - | - | - | - | - |
| Acquisition of entities under common control (Note 1) | - | - | (304,650) | - | - | - | - | (304,650) | - | (304,650) |
| Transfer to reserve | - | - | - | - | - | 72,325 | (72,325) | - | - | - |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | 116,492 | 116,492 |
| Dividends to non-controlling interest | - | - | - | - | - | - | - | - | (7,895) | (7,895) |
| At 31 December 2019 | 33,870 | 7,189,580 | (4,597,687) | 260,642 | (1,124) | 580,848 | 6,393,351 | 9,859,480 | 1,977,678 | 11,837,158 |

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Year ended 31 December | |
|---|-------|------------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Cash flows from operating activities | | | |
| Cash generated from operations | 31(a) | 8,829,870 | 7,442,771 |
| Income tax paid | | (828,531) | (836,671) |
| Net cash generated from operating activities | | 8,001,339 | 6,606,100 |
| Cash flows from investing activities | | | |
| Deposits paid for trust financing arrangements | | (157,620) | (273,424) |
| Refund from deposits paid for trust financing arrangements | | 377,612 | 28,361 |
| Additions of property and equipment | 18 | (25,675) | (19,078) |
| Proceeds from disposal of property and equipment | 31(b) | 1,265 | 217 |
| Net cash flow on disposal of subsidiaries | 19(a) | (11,971) | (71,632) |
| Additions of investment properties | 17 | (180,590) | (1,375,457) |
| Advances to related companies | | (1,825,715) | (5,281,962) |
| Advances to non-controlling interests | | (562,614) | (1,310,042) |
| Repayment from related companies | | 3,479,249 | 6,456,903 |
| Repayment from non-controlling interests | | 34,978 | 1,851,132 |
| Interest received | | 318,923 | 82,936 |
| Refund from deposits paid for acquisitions | | 470,015 | 35,700 |
| Payment for deposits paid for acquisitions | | (390,329) | (558,374) |
| Net cash flow on acquisition of subsidiaries | | 223,100 | (4,097,944) |
| Capital injection to investments accounted for using the equity method | | (447,116) | (15,000) |
| Proceeds from disposal of investments accounted for using the equity method | | 11,300 | – |
| Placement of restricted/pledged bank deposits | | (930,123) | (2,905,992) |
| Withdrawal of restricted/pledged bank deposits | | 965,974 | 2,812,543 |
| Purchase of financial assets at fair value through profit or loss | | (609,014) | (410,508) |
| Disposal of financial assets at fair value through profit or loss | | 475,393 | – |
| Net cash generated from/(used in) investing activities | | 1,217,042 | (5,051,621) |

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 7,819,614 | 7,244,118 |
| Repayment of borrowings | | (10,490,267) | (8,947,269) |
| Principal elements of lease payments | | (2,641) | – |
| Interest paid | | (1,776,490) | (1,663,843) |
| Proceeds from issuance of senior notes | | 2,730,999 | 6,136,221 |
| Repayment of senior notes | 29 | (4,644,144) | (3,918,140) |
| Contribution from ultimate shareholder | | 300,000 | – |
| Payment for acquisitions of entities under common control | | (300,000) | – |
| Advances from related parties | | 234,960 | 352,333 |
| Repayment to related parties | | (682,959) | (3,109,361) |
| Advances from non-controlling interests | | 148,362 | 523,252 |
| Repayment to non-controlling interests | | (262,307) | (200,314) |
| Dividend paid by entities under common control before acquisition | | (794,025) | (24,486) |
| Dividends paid to non-controlling interests in subsidiaries | | (7,895) | – |
| Dividends paid | | (232,438) | (129,631) |
| Acquisition of additional interests in a subsidiary | | – | (58,000) |
| Capital injection received by entities under common control before acquisition | | – | 100,000 |
| Capital contribution from non-controlling interests | | 60,000 | 160,545 |
| Net cash used in financing activities | | (7,899,231) | (3,534,575) |
| Net increase/(decrease) in cash and cash equivalents | | 1,319,150 | (1,980,096) |
| Cash and cash equivalents at beginning of year | | 4,599,433 | 6,392,341 |
| Exchange gains on cash and cash equivalents | | 111,829 | 187,188 |
| Cash and cash equivalents at end of year | 25 | 6,030,412 | 4,599,433 |

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION

Jiayuan International Group Limited (the “Company”) was incorporated on 5 May 2015 and registered in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. In March 2016, the Company completed the initial listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”). Its immediate and ultimate holding company is Mingyuan Group Investment Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability. Its ultimate controlling party is Mr. Shum Tin Ching (the “Ultimate Shareholder”).

The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is engaged in investment holding and its subsidiaries (collectively, the “Group”) are principally engaged in the property development, property investment and provision of property management services.

These consolidated financial statements for the year ended 31 December 2019 are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 9 March 2020.

1.1 Basis of preparation

(i) Compliance with Hong Kong Financial Reporting Standards (“HKFRS”) and the Hong Kong Companies Ordinance

The consolidated financial statements of the Group have been prepared in accordance with applicable HKFRS and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

Certain comparative amounts have been reclassified to conform to the current period’s presentation. These reclassifications had no effect on reported total assets, liabilities, equity or profit.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss (“FVPL”) and investment properties, which are carried at fair value.

1.2 Merger accounting for business combination involving entities under common control

On 21 January 2019, the Company completed the acquisition of the entire issued share capital of Chuangyuan Holdings Limited (“Chuangyuan”), a company incorporated in the BVI, from the Ultimate Shareholder (the “Chuangyuan Acquisition”) in consideration of 50,180,189 new issued ordinary shares of the Company to the Ultimate Shareholder. The principal activities of Chuangyuan and its subsidiaries (“Chuangyuan Group”) are provision of property management services in the PRC. Based on the market value of HKD4.4 per ordinary share of the Company on the completion date, the fair value of the consideration for Chuangyuan Acquisition is HKD220,793,000 (equivalent to RMB188,866,000).

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

On 26 April 2019, the Company entered into a sale and purchase agreement (as subsequently amended and supplemented) with the Ultimate Shareholder whereby the Company conditionally agreed to acquire 100% equity interest of Huiyuan Investment Holdings Limited (“Huiyuan”), a company incorporated in the BVI, in consideration of 1,377,959,475 new issued ordinary shares of the Company to the Ultimate Shareholder (“Huiyuan Acquisition”). The principal activities of Huiyuan and its subsidiaries (“Huiyuan Group”) are property development and property investment in the PRC. As a condition of Huiyuan Acquisition, Huiyuan Group acquired 82.48% equity interest of Bengbu Mingyuan Real Estate Development Co., Ltd. and 42% equity interest of Lujiang Jiayuan Real Estate Development Co., Ltd. from Zhejiang Jiyuan Real Estate Group Co., Ltd. which is controlled by the Ultimate Shareholder, in aggregate consideration of RMB304,650,000 in April and May 2019, respectively. The consideration of RMB304,650,000 was settled by the balance of other receivables due from the entities controlled by the Ultimate Shareholder in August 2019. On 8 August 2019, Huiyuan Acquisition was completed. Based on the market value of HKD3.18 per ordinary share of the Company on the completion date, the fair value of the consideration for Huiyuan Acquisition is HKD4,381,911,000 (equivalent to RMB3,914,053,000).

The Company has applied merger accounting (Note 2.4.2) to the Chuangyuan Acquisition and Huiyuan Acquisition, being business combinations involving entities under common control, under Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (“AG 5”) issued by the HKICPA. The Group, Chuangyuan Group and Huiyuan Group are regarded as continuing entities. As a result, the 2018 comparative amounts in the consolidated financial statements are adjusted to present as if the acquired businesses had been combined at the beginning of 2018.

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The effect of restatements described above on the consolidated income statement for the year ended 31 December 2018 by line items is as follows:

| | Year ended 31 December 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany transactions RMB'000 | Year ended 31 December 2018 RMB'000 (Restated) |
|--|--|--------------------------------|-----------------------------|---|--|
| Revenue | 10,458,841 | 435,427 | 2,749,595 | (27,860) | 13,616,003 |
| Cost of sales | (7,152,499) | (299,848) | (1,659,788) | – | (9,112,135) |
| Gross profit | 3,306,342 | 135,579 | 1,089,807 | (27,860) | 4,503,868 |
| Other income | 336,393 | 4,902 | 10,412 | – | 351,707 |
| Other gains and losses | (181,652) | 2,055 | 462 | – | (179,135) |
| Net impairment losses on financial assets | (75,746) | (7,027) | (11,991) | – | (94,764) |
| Fair value change on investment properties | 354,996 | – | 10,894 | – | 365,890 |
| Fair value gain upon transfer of inventories of properties to investment properties | 520,917 | – | – | – | 520,917 |
| Fair value change on financial assets at fair value through profit or loss | 12,930 | – | – | – | 12,930 |
| Selling and marketing costs | (297,569) | (4,725) | (56,690) | – | (358,984) |
| Administrative expenses | (310,252) | (33,948) | (103,670) | 27,860 | (420,010) |
| Other expenses | (2,266) | – | – | – | (2,266) |
| Finance costs | (208,208) | 84 | (85,276) | – | (293,400) |
| Share of results of investments accounted for using the equity method | 1,093 | – | 85,356 | – | 86,449 |
| Profit before taxation | 3,456,978 | 96,920 | 939,304 | – | 4,493,202 |
| Income tax expense | (1,594,092) | (21,708) | (525,218) | – | (2,141,018) |
| Profit for the year | 1,862,886 | 75,212 | 414,086 | – | 2,352,184 |
| Profit for the year attributable to: | | | | | |
| – Owners of the Company | 1,794,430 | 66,654 | 373,737 | – | 2,234,821 |
| – Non-controlling interests | 68,456 | 8,558 | 40,349 | – | 117,363 |
| | 1,862,886 | 75,212 | 414,086 | – | 2,352,184 |

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The effect of restatements described above on the consolidated statement of comprehensive income for the year ended 31 December 2018 by line items is as follows:

| | Year ended 31 December 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany transactions RMB'000 | Year ended 31 December 2018 RMB'000 (Restated) |
|--|--|--------------------------------|-----------------------------|---|--|
| Profit for the year | 1,862,886 | 75,212 | 414,086 | – | 2,352,184 |
| Other comprehensive income | | | | | |
| Item that may be reclassified to profit or loss: | | | | | |
| – Exchange differences arising on translation of foreign operations | (6,087) | – | – | – | (6,087) |
| Items that will not be reclassified to profit or loss: | | | | | |
| – Fair value gain on investment in equity instruments at fair value through other comprehensive income | – | 2,681 | – | – | 2,681 |
| Other comprehensive income for the year, net of tax | (6,087) | 2,681 | – | – | (3,406) |
| Total comprehensive income for the year | 1,856,799 | 77,893 | 414,086 | – | 2,348,778 |
| Total comprehensive income attributable to: | | | | | |
| – Owners of the Company | 1,790,795 | 68,665 | 373,737 | – | 2,233,197 |
| – Non-controlling interests | 66,004 | 9,228 | 40,349 | – | 115,581 |
| | 1,856,799 | 77,893 | 414,086 | – | 2,348,778 |

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The effect of restatements on the consolidated statement of financial position as at 31 December 2018 by line items is as follows:

| | 31 December 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany balances RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--|--|--------------------------------|-----------------------------|---|--|
| Non-current assets | | | | | |
| Investment properties | 5,998,818 | – | 1,572,900 | – | 7,571,718 |
| Property and equipment | 113,539 | 7,778 | 12,448 | – | 133,765 |
| Intangible assets | – | 1,487 | – | – | 1,487 |
| Investments accounted for using the equity method | 31,691 | – | 213,774 | – | 245,465 |
| Financial assets at fair value through profit or loss | 80,871 | – | – | – | 80,871 |
| Deposits paid for acquisitions | 1,935,423 | – | – | – | 1,935,423 |
| Deferred tax assets | 446,337 | 1,730 | 111,112 | – | 559,179 |
| Trade and other receivables | – | – | 3,909 | – | 3,909 |
| | 8,606,679 | 10,995 | 1,914,143 | – | 10,531,817 |
| Current assets | | | | | |
| Inventories of properties | 26,119,077 | 144 | 5,961,668 | – | 32,080,889 |
| Trade and other receivables | 5,604,811 | 341,484 | 4,784,047 | (599,283) | 10,131,059 |
| Financial assets at fair value through profit or loss | 707,499 | – | – | – | 707,499 |
| Prepaid income tax | 375,722 | – | 138,126 | – | 513,848 |
| Restricted/pledged bank deposits | 1,427,072 | 1,351 | 674,700 | – | 2,103,123 |
| Cash and cash equivalents | 3,906,504 | 33,367 | 659,562 | – | 4,599,433 |
| | 38,140,685 | 376,346 | 12,218,103 | (599,283) | 50,135,851 |
| Total assets | 46,747,364 | 387,341 | 14,132,246 | (599,283) | 60,667,668 |
| Current liabilities | | | | | |
| Trade and other payables | 3,986,436 | 144,419 | 2,649,382 | (617,284) | 6,162,953 |
| Pre-sale deposits received | 10,219,413 | 44,320 | 7,000,405 | 1 | 17,264,139 |
| Current income tax liabilities | 2,507,291 | 36,904 | 611,910 | – | 3,156,105 |
| Bank and other borrowings | 4,801,296 | – | 2,211,700 | – | 7,012,996 |
| Senior notes | 4,477,446 | – | – | – | 4,477,446 |
| | 25,991,882 | 225,643 | 12,473,397 | (617,283) | 38,073,639 |

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The effect of restatements on the consolidated statement of financial position as at 31 December 2018 by line items is as follows: (Continued)

| | 31 December 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany balances RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|--|--------------------------------|-----------------------------|---|--|
| Net current assets | 12,148,803 | 150,703 | (255,294) | 18,000 | 12,062,212 |
| Total assets less current liabilities | 20,755,482 | 161,698 | 1,658,849 | 18,000 | 22,594,029 |
| Non-current liabilities | | | | | |
| Bank and other borrowings | 7,773,825 | – | 14,100 | – | 7,787,925 |
| Pre-sale deposits received | 647,722 | – | – | – | 647,722 |
| Deferred tax liabilities | 655,833 | 186 | 4,120 | – | 660,139 |
| Senior notes | 2,735,063 | – | – | – | 2,735,063 |
| Other payables | – | – | 226,500 | – | 226,500 |
| | 11,812,443 | 186 | 244,720 | – | 12,057,349 |
| Equity attributable to owners of the Company | | | | | |
| Share capital | 21,083 | – | 283,250 | (283,250) | 21,083 |
| Reserves | 7,658,157 | 161,512 | 924,513 | 301,250 | 9,045,432 |
| | 7,679,240 | 161,512 | 1,207,763 | 18,000 | 9,066,515 |
| Non-controlling interests | 1,263,799 | – | 206,366 | – | 1,470,165 |
| Total equity | 8,943,039 | 161,512 | 1,414,129 | 18,000 | 10,536,680 |
| Total equity and non-current liabilities | 20,755,482 | 161,698 | 1,658,849 | 18,000 | 22,594,029 |

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The financial effect of the restatements to the Group's equity on 1 January 2018 is summarised below:

| | 1 January 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany balances RMB'000 | 1 January 2018 RMB'000 (Restated) |
|---------------------------|--|--------------------------------|-----------------------------|---|--|
| Share capital | 20,564 | – | 183,250 | (183,250) | 20,564 |
| Share premium | 3,216,102 | – | – | – | 3,216,102 |
| Special reserve | 22,500 | – | 100,000 | 236,762 | 359,262 |
| Other reserves | 278,665 | 53,512 | – | (53,512) | 278,665 |
| Statutory surplus reserve | 219,705 | 8,617 | 48,470 | – | 276,792 |
| Retained earnings | 3,191,020 | 102,319 | 448,973 | – | 3,742,312 |
| Total | 6,948,556 | 164,448 | 780,693 | – | 7,893,697 |
| Non-controlling interests | 44,127 | 88,792 | 131,601 | – | 264,520 |
| Total equity | 6,992,683 | 253,240 | 912,294 | – | 8,158,217 |

1 GENERAL INFORMATION, BASIS OF PREPARATION AND BUSINESS COMBINATION (CONTINUED)

1.2 Merger accounting for business combination involving entities under common control (Continued)

The financial effect of the restatements to the Group's equity on 31 December 2018 is summarised below:

| | 31 December 2018 RMB'000 (Audited and originally stated) | Chuangyuan Group RMB'000 | Huiyuan Group RMB'000 | Elimination of intercompany balances RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---------------------------|--|--------------------------------|-----------------------------|---|--|
| Share capital | 21,083 | – | 283,250 | (283,250) | 21,083 |
| Share premium | 3,331,886 | – | – | – | 3,331,886 |
| Special reserve | (593,290) | 35,375 | 100,000 | 267,797 | (190,118) |
| Other reserves | 278,665 | (33,453) | (46,667) | 33,453 | 231,998 |
| Exchange reserve | (3,635) | – | – | – | (3,635) |
| Statutory surplus reserve | 380,068 | 14,829 | 113,626 | – | 508,523 |
| Retained earnings | 4,264,463 | 144,761 | 757,554 | – | 5,166,778 |
| Total | 7,679,240 | 161,512 | 1,207,763 | 18,000 | 9,066,515 |
| Non-controlling interests | 1,263,799 | – | 206,366 | – | 1,470,165 |
| Total equity | 8,943,039 | 161,512 | 1,414,129 | 18,000 | 10,536,680 |

The effect of the restatement on the Group's earnings per share for the year ended 31 December 2018 is as follows:

Basic and diluted

| | RMB cents |
|--|-----------|
| As audited and originally stated | 72.21 |
| Adjustments arising from business combination under common control | (15.10) |
| Restated | 57.11 |

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 “Leases”;
- Prepayment features with negative compensation – amendments to HKFRS 9;
- Long-term interests in associates and joint ventures – amendments to HKAS 28;
- Annual improvements to HKFRS standards 2015-2017 cycle;
- Plan amendment, curtailment or settlement – amendments to HKAS 19; and
- Uncertainty over income tax treatment – HK (IFRIC) 23.

Except for HKFRS 16, the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019 (Note 3).

2.2 New and amended standards and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations to existing standards have been published that are not effective in current year and have not been early adopted by the Group.

| | | Effective for the financial year beginning on or after |
|---|---|--|
| Amendments to HKFRS 3 | Definition of a business | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8 | Definition of material | 1 January 2020 |
| Conceptual framework for financial reporting 2018 | Revised conceptual framework for financial reporting | 1 January 2020 |
| HKAS 39, HKFRS 7 and HKFRS 9 | Hedge accounting (Amendment) | 1 January 2020 |
| HKFRS 17 | Insurance contracts | 1 January 2021 |
| HKFRS 10 and HKAS 28 (Amendment) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

The above new standards, amendments and interpretations to existing standards are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2.3.2 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

2.3.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.4 Equity method

Under the equity method of accounting, interests in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture and associates equals or exceeds its interests in the joint ventures and associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures and associates), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures and associates.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture and associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and associates and its carrying value and recognises the amount adjacent to 'share of results of investment accounted for the equity method' in profit or loss.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interests in the joint ventures and associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3.5 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3.6 Disposals of interest in subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations

2.4.1 Non-common control business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations (Continued)

2.4.2 Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated income statement includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

2.4.3 Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets/financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Company that makes strategic decisions.

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated income statement within 'other gains and losses'.

(iii) Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|-----------------------------------|--|
| Leasehold land and building | Shorter of the term of lease or 50 years |
| Leasehold improvements | 5 years |
| Office equipment | 5 years |
| Furniture, fittings and equipment | 5–10 years |
| Computer equipment | 3–5 years |
| Motor vehicles | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other gains and losses' in the consolidated income statement.

2.9 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets. Changes in fair values are recorded in profit or loss as part of a valuation gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment properties (Continued)

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increase directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. For a transfer from completed properties held for sale or properties under development to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

The Group shall transfer a property from investment property to property under development when it commences related development with a view to sale. For a transfer from investment property that is carried at fair value to property under development, related property under development shall be recognised at fair value at the transfer date.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(b) Property management contracts

Property management contracts acquired in business combinations are recognised at fair value at the acquisition date. The property management contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives of the contracts (6 years).

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVPL');
- those to be measured subsequently at fair value through other comprehensive income ('FVOCI'); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

(ii) Recognition and measurement (Continued)

Debt instruments (Continued)

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of comprehensive income and recognised in 'other gains and losses'. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated income statement within 'other gains and losses' in the period in which it arises. Interest income from these financial assets is included in the 'other income'.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated income statement as 'other income' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in 'other gains and losses' in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

2.13 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9 – Financial instruments ("HKFRS 9"), which requires expected lifetime losses to be recognised from initial recognition of the receivables. For all other instruments, the Group measures the loss allowance equal to 12 months expected credit loss ("ECL"), unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period, the change of fair value is recognised immediately in profit or loss within 'other gains and losses'.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.16 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfill a contract comprise the development cost and land use right cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfill a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

2.17 Properties held for sale

Properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.18 Cash and cash equivalents

For purpose of presentation in the consolidated of statement of cash flows, cash and cash equivalent comprise cash on hand held by the Group, deposits held at call with financial institutions, other short-term, highly liquid investments, demand deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Contract assets and contract liabilities

Upon entering into a contract with a buyer, the Group obtains rights to receive consideration from the buyer and assumes performance obligations to transfer goods or provide services to the buyer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The contract liabilities are presented as pre-sale deposits received on the consolidated statement of financial position.

2.20 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Borrowing costs (Continued)

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are adjustments to interest costs include the interest rate differences between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and is limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.23 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 debt 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 option 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 debt 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.

2.24 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Current and deferred income tax (Continued)

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.25 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries and performance related bonus, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Performance related bonus is determined by reference to the performance of individuals and market trend. The liabilities are presented within "Trade and other payables" in the consolidated statement of financial position.

(ii) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties and provision of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from contracts with customers

Revenues are recognised when or as the control of the asset is transferred to the buyer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the buyer; or
- creates and enhances an asset that the buyer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the buyer obtains control of the asset.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(i) Sales of properties

Revenue from sales of properties is recognised over time when the Group's performance under the sale contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise revenue from sales of property is recognised at a point in time.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the buyer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable. Revenue of sales of the properties for the Group is recognised at point in time.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

(ii) Property management

Revenue arising from property management is recognised in the accounting period in which the services are rendered. The Group bills a fixed amount for each month of service provided and recognises as revenue in the amount to which the Group has a right to invoice and corresponds directly with the value of performance completed.

For property management services income from properties managed under lump sum basis, where the Group acts as principal and is primary responsible for providing the property management services to the property owners, the Group recognises the fee received or receivable from property owners as its revenue and all related property management costs as its cost of service.

Revenue from other sources

Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

2.28 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.30 Leases

As explained in Note 3, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is set out in Note 3.

The Group leases various properties. These property lease agreements do not impose any covenants, but leased properties may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property and equipment in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, long-term leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases (Continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 17). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Accounting policies applied until 31 December 2018

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases (Continued)

(a) The Group is the lessee

(i) *The Group is the lessee under operating lease other than land use rights*

Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(ii) *The Group is the lessee under operating lease of land use rights*

The Group made upfront payments to obtain operating leases of land use rights. The upfront payments of the land use rights are recorded as assets. The amortisation of land use rights is recognised as an expense on a straight-line basis over the unexpired period of the land use rights.

(b) The Group is the lessor

Assets leased out under operating leases are included in investment properties. Rental income from operating lease is recognised over the term of the lease on a straight-line basis.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or directors of the Company, where appropriate.

3 CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 “Leases” retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.30.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.42%.

(a) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease”.

3 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(b) Measurement of lease liabilities

| | At 1 January 2019 RMB'000 |
|--|---------------------------------|
| Operating lease commitments disclosed as at 31 December 2018 | 1,432 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 1,430 |
| (Less): Recognition exemption – short-term leases | (1,342) |
| Recognition exemption – low-value assets | (88) |
| Lease liability recognised as at 1 January 2019 | – |

The recognised lease liabilities relate to the following types of liabilities:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|--------------------------------|--------------------------------|--------------------------------|
| Current lease liabilities | 3,597 | – |
| Non-current lease liabilities | 7,317 | – |
| Total lease liabilities | 10,914 | – |

(c) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

The recognised right-of-use assets relate to the following types of assets:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|-------------------|--------------------------------|--------------------------------|
| Leased properties | 10,694 | – |

3 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(c) Measurement of right-of-use assets (Continued)

The following table presents the changes of right-of-use assets for the year ended 31 December 2019:

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Balance at 31 December | – | – |
| Adjustment on adoption of HKFRS 16 | – | – |
| Restated opening balance | – | – |
| Additions | 13,005 | – |
| Depreciation | (2,311) | – |
| Closing net book amount | 10,694 | – |

(d) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

| | 2019 RMB'000 |
|---|-----------------|
| Depreciation charge of right-of-use assets – leased properties | 2,311 |
| Interest expense (included in finance cost) | 550 |
| Expense relating to short-term leases (included in administrative expenses) | 1,342 |
| Expense relating to low-value leases (included in administrative expenses) | 88 |

The total cash outflow for leases in 2019 was RMB4,071,000.

There was no net impact on retained earnings on 1 January 2019.

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4 FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets at FVPL, trade and other receivables, restricted/pledged bank deposits, cash and cash equivalent, trade and other payables, bank and other borrowings and senior notes. Details of these financial instruments are set out in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures during the year reported.

(a) Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, loans receivables, bank and other borrowings and senior notes.

The Group is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits, cash and cash equivalent, variable-rate bank and other borrowings which carry interest at prevailing market interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Inter-bank Offered Rate and the lending rate quoted by the People's Bank of China arising from the Group's bank and other borrowings.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the respective reporting period. A 100 basis points (2018: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

If interest rate had been of 100 basis points (2018: 100 basis points) higher/lower and all other variables held constant, the Group's profit for the year would decrease/increase by approximately RMB20,625,000 for the year ended 31 December 2019 (2018: RMB12,510,000).

No sensitivity analysis has been prepared for the exposure to interest rate risk on the Group's restricted/pledged bank deposits and cash and cash equivalents as the directors of the Company consider that the exposure is minimal.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (Continued)

(ii) Foreign currency risk

The Group collects all of its revenue in RMB and most of the expenditures including expenditures incurred in property sales as well as capital expenditures are also denominated in RMB.

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2019 and 2018, the Group has financial assets at FVPL, trade and other receivables, restricted/pledged bank deposits, cash and cash equivalent, bank and other borrowings and senior notes denominated in foreign currencies, which expose the Group to foreign currency risk and mainly concentrated on the exposure to United States dollar ("USD"), HKD and Australian Dollar ("AUD").

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|-----|------------------|-------------------------------|------------------|-------------------------------|
| | 2019 RMB'000 | 2018 RMB'000 (Restated) | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| USD | 1,888,234 | 1,784,945 | 6,085,279 | 7,212,509 |
| HKD | 479,830 | 795,539 | 2,503,467 | 3,951,582 |
| AUD | 545,511 | 957,349 | – | – |
| | 2,913,575 | 3,537,833 | 8,588,746 | 11,164,091 |

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes the Group's financial assets at FVPL, trade and other receivables, restricted/pledged bank deposits, cash and cash equivalent, bank and other borrowings and senior notes denominated in the foreign currency at the end of each reporting period. A positive/negative number below indicates an increase/decrease in profit where RMB strengthen 5% (2018: 5%) against the relevant currency. For a 5% (2018: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before taxation for the year.

| | USD Impact | | HKD Impact | | AUD Impact | |
|--|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------|
| | 2019 RMB'000 | 2018 RMB'000 (Restated) | 2019 RMB'000 | 2018 RMB'000 (Restated) | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Increase/(decrease) in profit before taxation for the year | 209,852 | 271,378 | 101,182 | 157,802 | (27,276) | (47,867) |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, restricted/pledged bank deposits and cash and cash equivalents. The carrying amounts of trade and other receivables restricted/pledged bank deposits and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash and cash equivalents and restricted/pledged bank deposits

The credit risks on cash and cash equivalent, restricted/pledged bank deposits are limited because the counterparties are banks/financial institutions with acceptable credit ratings

Trade receivables

In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on financial assets at amortised cost collectively. In this regard, the directors of the Company consider that the Group's credit risk is effectively managed.

Other receivables

The credit risk of other receivables is managed through an internal process. The credit quality of each counterparty is investigated before credit is granted. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. The Group reviews the recoverable amount of these receivables at the end of each reporting period.

Debt instruments

All of the entity's debt instruments at FVPL are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses. Management have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial guarantee contracts

For the financial guarantee contracts provided by the Group to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties, the Group measured the loss allowance on financial guarantee contracts by reference to the historical default rate of the purchasers, the loss on default based on the current property value and the pre-sale deposits already received and the forward looking information. The directors of the Company considered that the loss allowances on financial guarantee contracts at 1 January 2019 and 31 December 2019 were insignificant to the Group. For properties which have been pre-sold, or for the completed properties that sold but the building ownership certificate not yet issued, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's sales deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk(Continued)

The Group's internal credit risk grading assessment comprises the following categories:

| Category | Group definition of category | Basis for recognition of expected credit loss provision |
|-----------------|---|--|
| Performing | Buyers have a low risk of default and a strong capacity to meet contractual cash flows | 12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime |
| Underperforming | Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due | Lifetime expected losses |
| Non-performing | Interest and/or principal repayments are 60 days past due | Lifetime expected losses |
| Write-off | Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery | Asset is written off |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount 2019 RMB'000 | Gross carrying amount 2018 RMB'000 |
|---|------------------------|------------------------------------|---------------------------------------|---------------------------------------|
| Financial assets at amortised cost | | | | |
| Restricted/pledged bank deposits | Performing | 12-month ECL | 2,123,101 | 2,103,123 |
| Cash and cash equivalents | Performing | 12-month ECL | 6,030,412 | 4,599,433 |
| Trade receivables | Performing | Lifetime ECL (provision matrix) | 321,910 | 169,791 |
| Other receivables | Performing | 12-month ECL | 1,198,163 | 3,488,758 |
| Other receivables | Performing | Lifetime ECL | – | 869,717 |
| Financial guarantee contracts | Performing | 12-month ECL | 13,289,638 | 11,269,932 |

- (i) For restricted/pledged bank deposits and cash and cash equivalent, the Group determines the expected credit losses by referring to external credit rating of the related banks.
- (ii) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix.
- (iii) For other receivables, for the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.
- (iv) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

The following tables show reconciliation of loss allowances that has been recognised for trade receivables and other receivables.

| | Trade receivables RMB'000 | Other receivables RMB'000 | Total RMB'000 |
|--|---------------------------------|---------------------------------|------------------|
| As at 1 January 2018 | – | – | – |
| – Impairment losses recognised | 1,228 | 34,105 | 35,333 |
| – Impairment losses reversed | – | (252) | (252) |
| Receivables written off as uncollectable | (143) | – | (143) |
| New financial assets originated or purchased | 5,851 | 53,832 | 59,683 |
| As at 31 December 2018 | 6,936 | 87,685 | 94,621 |

| | Trade receivables Lifetime ECL RMB'000 | Other receivables RMB'000 | Total RMB'000 |
|--------------------------------|---|---------------------------------|------------------|
| As at 1 January 2019 | 6,936 | 87,685 | 94,621 |
| – Impairment losses recognised | 2,490 | – | 2,490 |
| – Impairment losses reversed | – | (22,432) | (22,432) |
| Written off as uncollectable | (25) | – | (25) |
| As at 31 December 2019 | 9,401 | 65,253 | 74,654 |

No impairment allowance was made on restricted/pledged bank deposits, cash and cash equivalent, debt instruments and financial guarantee contracts at the end of each reporting period as the directors of the Company consider the effect is minimal.

Financial assets at fair value through profit or loss

The entity is also exposed to credit risk in relation to debt instruments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments (RMB668,204,000; 2018: RMB500,758,000).

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The directors of the Company closely monitor the cash flows of the Group and, upon maturity, would renew the bank borrowings and issue new senior notes, where necessary, to enable the Group to carry on its operations in the foreseeable future. In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans which are repayable on demand are included in the earliest time band. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | On demand or Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|--|--|--|--|-------------------------------|
| At 31 December 2019 | | | | | |
| Trade and other payables (excluding advances, business and other tax payables, accrued charges, deposits and other payables) | 3,944,611 | – | – | 3,944,611 | 3,944,611 |
| Lease liabilities | 5,501 | 3,631 | 4,280 | 13,412 | 10,914 |
| Bank and other borrowings | | | | | |
| – Fixed rate | 5,454,375 | 5,068,098 | 457,908 | 10,980,381 | 9,380,127 |
| – Variable rate | 428,744 | 309,980 | 2,440,073 | 3,178,797 | 2,750,052 |
| Senior notes | 805,328 | 670,805 | 5,743,048 | 7,219,181 | 5,274,776 |
| | 10,638,559 | 6,052,514 | 8,645,309 | 25,336,382 | 21,360,480 |
| Financial guarantee | | | | | |
| – Mortgage guarantees | 13,289,638 | – | – | 13,289,638 | – |
| Total | 23,928,197 | 6,052,514 | 8,645,309 | 38,626,020 | 21,360,480 |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

| | On demand or Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|--|--|--|--|-------------------------------|
| At 31 December 2018 (restated) | | | | | |
| Trade and other payables (excluding advances, business and other tax payables, accrued charges, deposits and other payables) | 3,214,252 | – | – | 3,214,252 | 3,214,252 |
| Bank and other borrowings | | | | | |
| – Fixed rate | 7,080,058 | 4,300,358 | 2,787,782 | 14,168,198 | 13,132,920 |
| – Variable rate | 1,729,137 | – | – | 1,729,137 | 1,668,001 |
| Senior notes | 4,922,459 | 3,006,899 | – | 7,929,358 | 7,212,509 |
| | 16,945,906 | 7,307,257 | 2,787,782 | 27,040,945 | 25,227,682 |
| Financial guarantee | | | | | |
| – Mortgage guarantees | 11,269,932 | – | – | 11,269,932 | – |
| Total | 28,215,838 | 7,307,257 | 2,787,782 | 38,310,877 | 25,227,682 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

The difference levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

| Financial assets at fair value through profit or loss | Fair value as at 31 December | | Fair value hierarchy | Valuation techniques and key inputs |
|--|------------------------------|-----------------|----------------------|--|
| | 2019 RMB'000 | 2018 RMB'000 | | |
| Debt instruments in the PRC | – | 65,913 | Level 3 | Market approach considers prices recently for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. |
| Debt instruments in Hong Kong | 107,827 | – | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. |
| Debt instruments in overseas | 545,511 | 419,887 | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. |
| Deposits paid for life insurance policies | 14,866 | 14,958 | Level 3 | Discounted cash flow. Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return of the underlying investments. |
| Listed equity investments in Hong Kong | 168,775 | 287,612 | Level 1 | Quoted bid prices in an active market. |
| Total | 836,979 | 788,370 | | |
| Financial liabilities – Put options of senior notes recognised as derivative financial instruments | 202,910 | – | Level 2 | The fair value of put options are determined by assessing the difference between the fair values of the bonds by quoted price based observable inputs and the pure bond value. |
| Put options of senior notes recognised as derivative financial instruments | 35,477 | – | Level 3 | The fair value of put options are determined by assessing the difference between the fair values of the bonds by quoted price in unobservable inputs and the pure bond value. |
| Total | 238,387 | – | | |

There were no transfers between Level 1, 2 and 3 during the year ended 31 December 2019 and 2018.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments (Continued)

(i) Reconciliation of Level 1 fair value measurements of financial assets

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at 1 January | 287,612 | – |
| Additions | 14 | 275,642 |
| Disposals | (40,292) | – |
| Fair value change | (82,146) | 11,970 |
| Exchange differences | 3,587 | – |
| Balance at 31 December | 168,775 | 287,612 |

(ii) Reconciliation of Level 3 fair value measurements of financial assets

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at 1 January | 500,758 | 69,122 |
| Additions | 609,013 | 370,206 |
| Disposals | (517,247) | – |
| Fair value change | 1,768 | 70 |
| Interest income | 80,572 | 63,791 |
| Insurance expenses | (295) | (295) |
| Exchange differences | (6,365) | (2,136) |
| Balance at 31 December | 668,204 | 500,758 |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements of financial instruments (Continued)

(iii) Reconciliation of Level 2 fair value measurements of financial liabilities

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at issue dates | 72,902 | – |
| Fair value change | 129,327 | – |
| Exchange differences | 681 | – |
| Balance at 31 December | 202,910 | – |

(iv) Reconciliation of Level 3 fair value measurements of financial liabilities

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------|-----------------|-----------------|
| Balance at issue dates | 106,995 | – |
| Fair value change | (73,970) | – |
| Exchange differences | 2,452 | – |
| Balance at 31 December | 35,477 | – |

The Group consider that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

The fair value of financial assets and financial liabilities other than financial assets at FVPL of the Group is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Financial instruments by category

| | As at 31 December 2019 | | |
|--|------------------------|---------------------------------|------------------|
| | At FVPL RMB'000 | At amortised cost RMB'000 | Total RMB'000 |
| Assets as per consolidated statement of financial position | | | |
| Trade and other receivables (excluding deposits, advances and prepayments) | – | 1,185,425 | 1,185,425 |
| Restricted/pledged bank deposits | – | 2,123,101 | 2,123,101 |
| Cash and cash equivalent | – | 6,030,412 | 6,030,412 |
| Financial assets at fair value through profit or loss | 836,979 | – | 836,979 |
| Total | 836,979 | 9,338,938 | 10,175,917 |
| Liabilities as per consolidated statement of financial position | | | |
| Trade and other payables (excluding advances, business and other tax payables, accrued charges and deposits) | – | 3,944,611 | 3,944,611 |
| Lease liabilities | – | 10,914 | 10,914 |
| Bank and other borrowings | – | 12,130,179 | 12,130,179 |
| Senior notes | – | 5,274,776 | 5,274,776 |
| Derivative financial instruments | 238,387 | – | 238,387 |
| Total | 238,387 | 21,360,480 | 21,598,867 |

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Financial instruments by category (Continued)

| | As at 31 December 2018 | | |
|---|------------------------|---------------------------------|-------------------|
| | At FVPL RMB'000 | At amortised cost RMB'000 | Total RMB'000 |
| Assets as per consolidated statement of financial position | | | |
| Trade and other receivables (excluding deposits, advances and prepayments) | – | 1,310,566 | 1,310,566 |
| Restricted/pledged bank deposits | – | 2,103,123 | 2,103,123 |
| Cash and cash equivalent | – | 4,599,433 | 4,599,433 |
| Financial assets at fair value through profit or loss | 788,370 | – | 788,370 |
| Total | 788,370 | 8,013,122 | 8,801,492 |
| Liabilities as per consolidated statement of financial position | | | |
| Trade and other payables (excluding advances, business and other tax payables, accrued charges and deposits) | – | 3,214,252 | 3,214,252 |
| Bank and other borrowings | – | 14,800,921 | 14,800,921 |
| Senior notes | – | 7,212,509 | 7,212,509 |
| Total | – | 25,227,682 | 25,227,682 |

5 CAPITAL MANAGEMENT

The directors of the Company manage its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debts include bank and other borrowings and senior notes, as disclosed in respective notes, net of cash and cash equivalent and restricted/pledged bank deposits.

The directors of the Company review the gearing ratio and capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The calculation of gearing ratio as at 31 December 2019 and 2018 was as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|----------------------------------|-----------------|-----------------|
| Bank and other borrowings | 12,130,179 | 14,800,921 |
| Senior notes | 5,274,776 | 7,212,509 |
| Total | 17,404,955 | 22,013,430 |
| Less: Cash and cash equivalents | (6,030,412) | (4,599,433) |
| Restricted/pledged bank deposits | (2,123,101) | (2,103,123) |
| Net debts | 9,251,442 | 15,310,874 |
| Total equity | 11,837,158 | 10,536,680 |
| Gearing ratio | 78.2% | 145.3% |

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Valuation of inventories of properties

The Group's inventories of properties are stated at the lower of cost and the net realisable value ("NRV"). The management of the Group make significant judgment on the estimation of selling prices, selling expenses and costs to completion in determining the NRV of these inventories of properties.

Based on the experience of the management of the Group and the nature of the subject properties, the management of the Group determines the NRV of these inventories of properties by reference to the estimated costs to completion, costs to sale and selling prices of the inventories of properties, which takes into account a number of factors including the pre-sale units in the same project or comparable properties with similar type, size and location, and market conditions in the prevailing real estate markets. The directors of the Company estimate the costs to completion and costs to sale of the inventories of properties by reference to the actual development cost and selling expenses of other similar completed projects of the Group.

If there is an increase in costs to completion or a decrease in estimated selling prices, this may result in write-downs for these inventories of properties. Such write-downs require the use of estimates of the management of the Group. Based on the management's estimation of the NRV of the inventories of properties, no impairment were considered to be necessary.

(b) Estimate of fair value of investment properties

At the end of the reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuer engaged by the Group. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates as explained in Note 17. In relying on the valuation reports, the management has exercised their judgment and is satisfied that the assumptions used in valuation have reflected the current market conditions.

(c) Estimate of income tax expenses

Significant judgements are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expense in the year which such determination is made.

The Group is subject to the land appreciation tax ("LAT") in the PRC. The details of the implementation have been announced by local tax bureaux in certain major cities, however, the Group is in the process of finalising the LAT calculation and payments with local tax bureaux in certain major cities in the PRC. Significant judgments are required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

7 REVENUE

Revenue is stated net of sales related tax and is analysed as follows:

| | For the year ended 31 December | |
|---|-----------------------------------|-------------------------------|
| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Types of goods and services | | |
| Sales of properties | 15,373,501 | 13,127,092 |
| Property management services | 485,778 | 318,246 |
| Property rental | 210,892 | 76,977 |
| Sales and installation service of software and system equipment | – | 89,322 |
| Consulting service | – | 4,366 |
| Total | 16,070,171 | 13,616,003 |
| Revenue is recognised: | | |
| Contracts with customers: | | |
| – At a point in time | 15,373,501 | 13,211,726 |
| – Over time | 485,778 | 327,300 |
| | 15,859,279 | 13,539,026 |
| Other source: rental income | 210,892 | 76,977 |
| Total | 16,070,171 | 13,616,003 |

Sales of properties by geographical markets

| | For the year ended 31 December | |
|----------------|-----------------------------------|-------------------------------|
| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| Mainland China | 14,062,528 | 13,127,092 |
| Hong Kong | 1,310,973 | – |
| Total | 15,373,501 | 13,127,092 |

There was no individual customer contributing over 10% of the total revenue for the years ended 31 December 2019 and 2018.

7 REVENUE (CONTINUED)

Performance obligations for contracts with customers

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms and the legal environment in the PRC, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable. The Group receives certain percentage of the contract value as deposits from customers when they sign the sale and purchase agreement while construction work of property is still ongoing. Certain customers who use mortgage loans provided by the banks and the remaining amount of the total contract value will be paid to the Group from the banks once the customers meet the requirements of the banks. Such advance payment schemes result in contract liabilities being recognized.

For property management services, the Group recognises revenue in the amount that equals to the right to invoice which corresponds directly with the value to the customer of the Group's performance to date, on a monthly basis. Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided.

Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at year end date and the expected timing of recognising revenue are as follows for sales of properties:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-------------------|-------------------|
| Within one year | 17,050,839 | 8,213,978 |
| More than one year but not more than two years | 7,097,733 | 8,796,683 |
| More than two years | – | 1,339,764 |
| | 24,148,572 | 18,350,425 |

8 SEGMENT INFORMATION

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors, being the chief operating decision maker, for the purpose of allocating resources to segments and assessing their performance. All operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group is principally engaged in property development revenue of which accounted for over 90% of total turnover.

No segment assets and liabilities are presented as they were not provided to the chief operating decision maker for the purpose of resource allocation and performance assessment.

In 2018, the Group identified two reportable segments – Property development and Property investment. During the year, the board of directors reassessed the performance and operation of the Group and concluded that the Group has only one reportable segment – Property development. The other segments are individually and collectively insignificant for segment reporting purpose. As such, no segment information is presented.

No geographical segment analysis is shown as more than 90% of the Group’s revenue are derived from activities in and from customers located in the PRC and more than 90% of the carrying values of the Group’s non-current assets excluding financial instruments and deferred tax assets are situated in the PRC.

9 OTHER INCOME

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Interest income on loans receivable | 132,597 | 190,491 |
| Interest income on financial assets at fair value through profit or loss (Note 4(d)(ii)) | 80,572 | 63,791 |
| Interest income on bank deposits | 79,860 | 72,196 |
| Government grant | 592 | 1,944 |
| Others | 14,857 | 23,285 |
| | 308,478 | 351,707 |

10 OTHER GAINS AND LOSSES

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|------------------|-------------------------------|
| Gains on disposal of investment in associates | 21,712 | – |
| Fair value change on derivative financial instruments | (55,357) | – |
| (Losses)/gains on disposals of property and equipment | (5) | 115 |
| Losses on disposals of financial assets at fair value through profit or loss | (15,232) | – |
| Losses on deemed disposal of a subsidiary (Note 19(a)(i)) | (39,709) | – |
| Foreign exchange losses, net | (61,144) | (167,016) |
| Others | 8,336 | (12,234) |
| | (141,399) | (179,135) |

11 FINANCE COSTS

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|--------------------|-------------------------------|
| Interest expenses: | | |
| – Bank and other borrowings | 1,243,160 | 1,395,105 |
| – Senior notes | 621,541 | 777,336 |
| – Lease liabilities (Note 3) | 550 | – |
| | 1,865,251 | 2,172,441 |
| Loss on exchange of senior notes | 22,146 | – |
| | 1,887,397 | 2,172,441 |
| Less: amounts capitalised on qualifying assets | (1,604,699) | (1,879,041) |
| | 282,698 | 293,400 |

Finance costs have been capitalised for investment properties under construction and inventories of properties under development at an average rate of 6.79% (2018: 6.36%) per annum for the year ended 31 December 2019.

12 INCOME TAX EXPENSES

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|-------------------------------|------------------|-------------------------------|
| Current income tax | | |
| – Corporate income tax | 1,131,003 | 1,063,579 |
| – Land appreciation tax | 1,130,859 | 1,030,723 |
| | 2,261,862 | 2,094,302 |
| Deferred income tax (Note 22) | 67,192 | 46,716 |
| | 2,329,054 | 2,141,018 |

No provision for taxation has been recognised for companies incorporated in the Cayman Islands and the BVI as they are not subject to any tax during both years.

Hong Kong profits tax has been provided at the rate of 16.5% (2018:16.5%) on the estimated assessable profits of the Group's subsidiaries in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

All gains arising from the sale or transfer of real estate in the PRC are subject to land appreciation tax at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and certain expenses for the development of the land. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities.

12 INCOME TAX EXPENSES (CONTINUED)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group companies as follows:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---|-----------------|-------------------------------|
| Profit before income tax | 4,789,537 | 4,493,202 |
| Tax calculated at income tax rate of 25% (2018: 25%) | 1,197,384 | 1,123,301 |
| Effects of different tax rates applicable to different subsidiaries of the Group | (16,301) | (132) |
| Utilisation of tax losses not previously recognised as deferred income tax assets | (22,431) | (32,885) |
| Effects of share of post-tax results of investments accounted for using the equity method | (20,514) | (21,339) |
| Income not subject to tax | (49,303) | (46,151) |
| Tax effect of tax losses not recognised deferred income tax assets | 24,358 | 15,411 |
| Expenses not deductible for tax purpose | 367,717 | 329,771 |
| Land appreciation tax | 1,480,910 | 1,367,976 |
| Tax effect of land appreciation tax | (282,715) | (257,681) |
| Income tax expenses | 2,329,054 | 2,141,018 |

13 PROFIT FOR THE YEAR

Profit for the year was after charging:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Cost of properties held for sale recognised as expenses | 10,480,894 | 8,756,711 |
| Depreciation charge of property and equipment | 12,785 | 14,553 |
| Depreciation charge of right-of-use assets (Note 3) | 2,311 | – |
| Auditors' remuneration | | |
| – Audit services | 5,500 | 2,530 |
| – Non-audit services | 5,238 | 5,164 |
| | 10,738 | 7,694 |
| Employee benefit expense (including directors' emoluments) | | |
| Salaries and other allowances | 443,688 | 313,440 |
| Retirement benefit costs | 24,812 | 20,676 |
| Capitalised in properties under development | (46,270) | (19,215) |
| | 422,230 | 314,901 |

14 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

The remuneration of every director and chief executive officer of the Company is set out below:

| | Fees RMB'000 | Salary and other allowance RMB'000 | Performance related bonuses RMB'000 | Retirement benefit scheme contribution RMB'000 | Total RMB'000 |
|--|-----------------|---|--|--|------------------|
| Year ended 31 December 2019 | | | | | |
| Executive directors | | | | | |
| Mr. Zhang Yi (Note i) | – | 2,824 | 1,102 | 11 | 3,937 |
| Ms. Cheuk Hiu Nam (Note i) | – | 176 | – | – | 176 |
| Mr. Huang Fuqing | – | 979 | 1,321 | 27 | 2,327 |
| Mr. Wang Jianfeng | – | 1,286 | 602 | 16 | 1,904 |
| Non-executive director | | | | | |
| Mr. Shum Tin Ching | – | 829 | – | 16 | 845 |
| Mr. Shen Xiaodong (Note ii) | – | 879 | 402 | 16 | 1,297 |
| Independent non-executive directors | | | | | |
| Mr. Tai Kwok Leung, Alexander | 250 | – | – | – | 250 |
| Dr. Cheung Wai Bun, Charles, JP | 250 | – | – | – | 250 |
| Mr. Gu Yunchang | 250 | – | – | – | 250 |
| | 750 | 6,973 | 3,427 | 86 | 11,236 |

14 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

| | Fees RMB'000 | Salary and other allowance RMB'000 | Performance related bonuses RMB'000 | Retirement benefit scheme contribution RMB'000 | Total RMB'000 |
|--|-----------------|---|--|--|------------------|
| Year ended 31 December 2018 | | | | | |
| Executive directors | | | | | |
| Ms. Cheuk Hiu Nam (i) | – | 200 | – | – | 200 |
| Mr. Huang Fuqing | – | 844 | 1,392 | 42 | 2,278 |
| Mr. Wang Jianfeng | – | 843 | 678 | 16 | 1,537 |
| Non-executive director | | | | | |
| Mr. Shum Tin Ching | – | 843 | – | 16 | 859 |
| Independent non-executive directors | | | | | |
| Mr. Tai Kwok Leung, Alexander | 200 | – | – | – | 200 |
| Dr. Cheung Wai Bun, Charles, JP | 200 | – | – | – | 200 |
| Mr. Gu Yunchang | 200 | – | – | – | 200 |
| | 600 | 2,730 | 2,070 | 74 | 5,474 |

- (i) Mr. Zhang Yi was appointed as an executive director and the president of the Company on 17 February 2019, who also performed the duties of chief executive. Ms. Cheuk Hiu Nam ceased to be the Chief Executive Officer of the Company on 17 February 2019 while her emoluments disclosed above include those for services rendered by her as the Chief Executive Officer. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (ii) Mr. Shen Xiaodong was appointed as a non-executive director of the Company on 17 February 2019. The non-executive director's emoluments shown above were for his services as a director of the Company.

14 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 December 2019, no retirement benefits were paid to the directors of the Company by the Group in respect of the director's services as a director of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiaries (2018: nil).

(c) Directors' termination benefits

During the year ended 31 December 2019, no payments to the directors of the Company as compensation for the early termination of the appointment (2018: nil).

(d) Consideration provided to or receivable by third parties for making available directors' services

During the year ended 31 December 2019, there were no considerations provided to or receivable by any third party for making available the services of a person as a director of the Company (2018: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

During the year ended 31 December 2019, there were no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2018: nil).

(f) Directors' material interests in transactions, arrangements or contracts

Except for the transactions disclosed in Note 1.2 and Note 37, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: nil).

(g) Five highest paid employees' emoluments

The five highest paid individuals included 3 directors (2018: 2) for the year ended 31 December 2019. The remunerations of the remaining 2 (2018: 3) highest paid individuals for the year are as follows:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---|-----------------|-------------------------------|
| Employees | | |
| – Salaries and other allowances | 2,195 | 2,683 |
| – Performance related bonus | 1,420 | 1,895 |
| – Retirement benefit scheme contributions | 47 | 171 |
| | 3,662 | 4,749 |

14 DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (CONTINUED)

(g) Five highest paid employees' emoluments (Continued)

The remuneration were within the following bands:

| | Number of individuals | |
|------------------------------|-----------------------|------|
| | 2019 | 2018 |
| HKD1,500,001 to HKD2,000,000 | – | 2 |
| HKD2,000,001 to HKD2,500,000 | 2 | 1 |

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years.

15 DIVIDENDS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Dividends recognised as distribution during the year: | | |
| Final dividend declared for the prior year | | |
| – HKD11 cents (2018: HKD19 cents) per share | 248,054 | 405,036 |
| Interim dividend | | |
| – HKD nil (2018: HKD10 cents) per share | – | 220,250 |
| | 248,054 | 625,286 |
| Final dividend proposed in respect of current year: | | |
| – HKD11 cents (2018: HKD11 cents) per ordinary share | 388,962 | 247,441 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HKD11 cents (2018: HKD11 cents) per ordinary share, in an aggregate amount of HKD433,868,000, approximately RMB388,962,000, (2018: HKD281,727,000, approximately RMB247,441,000) taking into account 3,944,252,000 (2018: 2,561,151,991) ordinary shares in issue at the reporting date, have been proposed by the Board of Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period will be either payable in cash or in form of new fully paid shares of the Company in respect of part or all of such final dividend at shareholders' option. The final dividend proposed has not been recognised as a liability in these consolidated financial statements.

15 DIVIDENDS (CONTINUED)

During the year, share scrip alternatives were offered in respect of the dividends declared. These share scrip alternatives were accepted by shareholders, as follows:

| | 2019 | | 2018 | |
|------------------------------|----------------|--------------------------|---------|--------------------------|
| | HKD'000 | Equivalent to RMB'000 | HKD'000 | Equivalent to RMB'000 |
| Dividends | | | | |
| – Cash | 263,981 | 232,438 | 147,901 | 129,631 |
| – Scrip dividend alternative | 17,746 | 15,616 | 565,813 | 495,655 |
| | 281,727 | 248,054 | 713,714 | 625,286 |

16 EARNINGS PER SHARE**(a) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by weighted average number of ordinary share in issue during the year.

| | 2019 | 2018 (Restated) |
|--|-----------|--------------------|
| Profit for the year attributable to owners of the Company (RMB'000) | 2,050,664 | 2,234,821 |
| Weighted average number of ordinary shares for in issue (in thousands) | 3,941,295 | 3,913,111 |
| Basic earnings per share (RMB cents) | 52.03 | 57.11 |

(b) Diluted earnings per share

For the years ended 31 December 2019 and 2018, diluted earnings per share equal basic earnings per share as there were no dilutive potential shares in both years.

17 INVESTMENT PROPERTIES

| | Completed investment properties RMB'000 | Investment properties under construction RMB'000 | Total RMB'000 |
|---|--|--|------------------|
| Fair value | | | |
| At 1 January 2018 (restated) | 2,526,142 | 2,063,200 | 4,589,342 |
| Additions | 13,085 | 1,362,372 | 1,375,457 |
| Exchange differences | – | 17,183 | 17,183 |
| Acquisition of a subsidiary | – | 27,846 | 27,846 |
| Transfer from inventories of properties | 675,083 | – | 675,083 |
| Transfer upon completion | 838,000 | (838,000) | – |
| Fair value gain upon transfer of inventories of properties to investment properties | 520,917 | – | 520,917 |
| Fair value change | 89,606 | 276,284 | 365,890 |
| At 31 December 2018 (restated) | 4,662,833 | 2,908,885 | 7,571,718 |
| Additions | – | 180,590 | 180,590 |
| Deemed disposal of a subsidiary | – | (344,704) | (344,704) |
| Transfer to properties under development | (2,936) | – | (2,936) |
| Transfer upon completion | 2,683,222 | (2,683,222) | – |
| Fair value change | 304,561 | 132,677 | 437,238 |
| At 31 December 2019 | 7,647,680 | 194,226 | 7,841,906 |

The Group's policy is to recognise change of fair value hierarchy levels as of the date of the event or change in circumstances that caused the change. At 31 December 2019 and 2018, the Group had only level 3 investment properties.

17 INVESTMENT PROPERTIES (CONTINUED)

Valuation processes of the Group

The Group's investment properties were valued at transfer or business acquisition dates, and at 31 December 2019 and 2018 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent and professionally qualified valuers who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates the highest and best use.

Discussions of valuation processes and results are held between management and the valuers on a semi-annual basis, in line with the Group's interim and annual reporting dates.

At each half year-end, management:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuers.

Valuation techniques

Valuations are based on:

- (i) Direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size; and/or
- (ii) Income capitalisation approach taking into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property; or
- (iii) Residual method of valuation which is commonly used in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on land and construction costs, professional fees, contingency, marketing and legal cost, and interest payments to be incurred as well as anticipated developer's profits.

There were no changes to the valuation techniques during the year.

17 INVESTMENT PROPERTIES (CONTINUED)**Information about fair value measurements using significant unobservable inputs (level 3)**

| | Fair value as at 31 December 2019 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs |
|--|--|----------------------------|--|------------------------------------|
| Completed investment properties | 7,647,680 | Income capitalisation | Montly rentals (per square meter/month) Term yields Reversionary yields | RMB45-RMB234 1.5%-6.5% 2%-7% |
| Investment properties under construction | 129,426 | Residual method | Budgeted construction cost to be incurred Anticipated developer's profit | RMB 79.2 Million 3%-20% |
| Investment properties under construction | 64,800 | Direct comparison approach | Weighted average of comparable land price (RMB/square meter) | RMB1,829-RMB1,919 |
| | Fair value as at 31 December 2018 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs |
| Completed investment properties | 4,662,833 | Income capitalisation | Montly rentals (per square meter/month) Term yields Reversionary yields | RMB39-RMB225 1.5%-6% 3.5%-7% |
| Investment properties under construction | 2,865,785 | Residual method | Budgeted construction cost to be incurred Anticipated developer's profit | RMB128.1 Million 3%-20% |
| Investment properties under construction | 43,100 | Direct comparison approach | Weighted average of comparable land price (RMB/square meter) | RMB957-RMB1,815 |

17 INVESTMENT PROPERTIES (CONTINUED)

Relationships of unobservable inputs to fair value are as follows:

- The higher monthly rentals, the higher fair value;
- The higher term yields, the lower fair value;
- The higher reversionary yields, the lower fair value;
- The higher budgeted construction cost to be incurred, the lower fair value; and
- The higher the anticipated developer's profit, the lower fair value.

Amounts recognised in profit or loss for investment properties

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---|------------------------|-------------------------------|
| Rental income | 210,892 | 76,977 |
| Fair value change on investment properties | 437,238 | 365,890 |
| Fair value gain upon transfer of inventories of properties to investment properties | – | 520,917 |
| | 648,130 | 963,784 |

Operating expenses is not material for the year ended 31 December 2019 and 2018.

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

18 PROPERTY AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Office equipment RMB'000 | Furniture, fitting and equipment RMB'000 | Computer equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---------------------------------------|---|--------------------------------------|--------------------------------|---|----------------------------------|------------------------------|------------------|
| Cost | | | | | | | |
| At 1 January 2018 (restated) | 111,945 | 3,239 | 29,469 | 2,139 | 4,956 | 30,151 | 181,899 |
| Additions | 56 | 406 | 6,600 | 507 | 1,433 | 10,076 | 19,078 |
| Acquisition of subsidiaries | 22,455 | 1,406 | 679 | 129 | 210 | 1,853 | 26,732 |
| Disposal of subsidiaries | (29,099) | – | (9,133) | – | – | (168) | (38,400) |
| Disposals | – | (190) | (936) | – | (15) | (1,027) | (2,168) |
| At 31 December 2018 (restated) | 105,357 | 4,861 | 26,679 | 2,775 | 6,584 | 40,885 | 187,141 |
| Additions | 80 | 577 | 9,376 | 720 | 2,036 | 12,886 | 25,675 |
| Acquisition of subsidiaries | 1,431 | 90 | 43 | 8 | 13 | 118 | 1,703 |
| Disposal of subsidiaries | (6,630) | (306) | (1,679) | (175) | (414) | (2,573) | (11,777) |
| Disposals | – | (132) | (651) | – | (10) | (714) | (1,507) |
| At 31 December 2019 | 100,238 | 5,090 | 33,768 | 3,328 | 8,209 | 50,602 | 201,235 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2018 (restated) | (8,623) | (1,265) | (10,673) | (1,094) | (3,814) | (17,754) | (43,223) |
| Charge for the year | (2,677) | (1,092) | (3,158) | (485) | (663) | (6,724) | (14,799) |
| Disposal of subsidiaries | 1,593 | – | 986 | – | – | 1 | 2,580 |
| Disposals | – | 181 | 893 | – | 15 | 977 | 2,066 |
| At 31 December 2018 (restated) | (9,707) | (2,176) | (11,952) | (1,579) | (4,462) | (23,500) | (53,376) |
| Charge for the year | (3,241) | (1,162) | (3,604) | (516) | (706) | (7,157) | (16,386) |
| Disposal of subsidiaries | 212 | 48 | 261 | 35 | 98 | 516 | 1,170 |
| Disposals | – | 21 | 102 | – | 2 | 112 | 237 |
| At 31 December 2019 | (12,736) | (3,269) | (15,193) | (2,060) | (5,068) | (30,029) | (68,355) |
| Carrying values | | | | | | | |
| At 31 December 2019 | 87,502 | 1,821 | 18,575 | 1,268 | 3,141 | 20,573 | 132,880 |
| At 31 December 2018 (restated) | 95,650 | 2,685 | 14,727 | 1,196 | 2,122 | 17,385 | 133,765 |

The leasehold land and buildings are located in Hong Kong and the PRC.

The land and buildings elements of a lease of land and buildings cannot be allocated reliably between the land and buildings elements, and the lease is treated as property and equipment.

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

18 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charge was capitalised or expensed in the following categories in the consolidated statement of financial position or the consolidated income statement respectively.

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------------------|-----------------|-----------------|
| Properties under development | 3,601 | 246 |
| Cost of sales | 1,143 | 70 |
| Selling and marketing costs | 35 | 43 |
| Administrative expenses | 11,607 | 14,440 |
| | 16,386 | 14,799 |

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--|--------------------------------|--|
| Interests in joint ventures (Note (a)) | 931,896 | 39,900 |
| Interests in associates (Note (b)) | 53,155 | 205,565 |
| | 985,051 | 245,465 |

(a) Interests in joint ventures

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---------------------------------------|-----------------|-------------------------------|
| At 1 January | 39,900 | 936 |
| Additions | 735,169 | – |
| Transfer from subsidiaries (Note (i)) | 107,423 | – |
| Share of results | 49,404 | 38,964 |
| At 31 December | 931,896 | 39,900 |

The entities listed below have share registered capital/share capital, which are held directly by the Group. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion voting rights held. The joint ventures are unlisted companies and there are no quoted market prices available for its equity interests.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Interests in joint ventures (Continued)

| Name of entity | Place of incorporation | Proportion of ownership interest held | | Principal activity |
|--|------------------------|---------------------------------------|------|------------------------------|
| | | 2019 | 2018 | |
| Nanjing Kangxing Science and Technology Industrial Park Operation Management Co., Ltd. ("Nanjing Kangxing") 南京康星科技產業園營運有限公司 | PRC | 51% | – | Property development |
| Dongfangsuoqi Investment Development Group Co., Ltd. ("Dongfangsuoqi") 東方索契投資發展集團有限公司 | PRC | 36% | – | Property development |
| Chongqing Jiabao Property Management Co., Ltd ("Chongqing Jiabao") 重慶佳寶物業管理有限公司 | PRC | 51% | – | Property management |
| Lujiang Biyuan Real Estate Development Co., Ltd 廬江碧源房地產開發有限公司 | PRC | 50% | 50% | Property development |
| Yancheng Xingzhou Jiayuan Real Estate Development Co., Ltd ("Yancheng Xingzhou") 鹽城星洲佳源房地產開發有限公司 | PRC | 65% | – | Property development |
| Gang Yuan (Cambodia) Development Co.,Ltd (i) | Cambodia | 50% | – | Property development |
| Meijia (Pingtan) Cultural Tourism Development Co., Ltd 美佳(平潭)文化旅遊發展有限公司 | PRC | 30% | – | Cultural Tourism Development |
| Zhejiang Xingjia Property Service Co., Ltd ("Zhejiang Xingjia") 浙江星佳物業服務有限公司 | PRC | 51% | – | Property management |

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(a) Interests in joint ventures (Continued)**

According to the Articles of these entities, all significant and relevant matters of these entities require unanimous consent among the shareholders. Therefore these entities are accounted as joint ventures of the Group.

- (i) Gang Yuan (Cambodia) Development Co., Ltd (“Gang Yuan”) was a wholly-owned subsidiary of the Group incorporated in Cambodia before 21 July 2019. On 25 June 2019, a joint venture agreement was entered into with Hongzhou Jin Jia Real Estate Co., Ltd, an independent third party, to inject additional capital of US\$10,000,000 into Gang Yuan, which represented 50% of the share capital of Gang Yuan. Upon completion of the capital injection and the amendment of its Articles on 21 July 2019, Gang Yuan became a joint venture of the Group. As the result, the transaction was treated as a deemed disposal of a subsidiary.

Details of the deemed disposal are as follows:

| | RMB'000 |
|--|-----------|
| Consideration | |
| – Fair value of 50% equity interest in Gang Yuan | 107,423 |
| Net assets of Gang Yuan disposed of | (147,132) |
| Loss on disposal | (39,709) |
| Cash proceeds from disposals, net of cash disposed of | |
| – Cash consideration received | – |
| – Less: cash and cash equivalents in Gang Yuan disposed of | 11,971 |
| Net cash outflow on disposals | (11,971) |

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Interests in joint ventures (Continued)

- (ii) As at 31 December 2019, there are no significant contingent liabilities and commitments relating to the Group's interest in the joint ventures (2018: nil).
- (iii) In the opinion of the directors, none of the above joint ventures are individually material to the Group. Set out below is the summarised financial information of the joint ventures and Group's share of results:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Carrying amount in the consolidated financial statements | 931,896 | 39,900 |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | 49,404 | 38,964 |
| Total comprehensive income | 49,404 | 38,964 |

(b) Interests in associates

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|-------------------------------------|-----------------|-------------------------------|
| At 1 January | 205,565 | 158,080 |
| Additions | 1,600 | – |
| Transfer to subsidiaries (Note (i)) | (104,933) | – |
| Disposals | (81,729) | – |
| Share of results | 32,652 | 47,485 |
| At 31 December | 53,155 | 205,565 |

The entities listed below have share registered capital/share capital, which are held directly by the Group. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion voting rights held. The associates are unlisted companies and there are no quoted market prices available for its equity interests.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(b) Interests in associates (Continued)**

| Name of entity | Country of incorporation | % of ownership interest | | Principal activity |
|--|--------------------------|-------------------------|------|----------------------|
| | | 2019 | 2018 | |
| Mengcheng Biguiyuan Real Estate Development Co., Ltd 蒙城縣碧桂園房地產開發有限公司 | PRC | 30% | 30% | Property development |
| Pinghu City Jiayuan Tourism Development Co., Ltd 平湖市佳源旅遊開發有限公司 | PRC | — | 22% | Property development |
| Guoyang Mingbang Development Co., Ltd 渦陽名邦置業有限公司 (“Guoyang Mingbang”) (i) | PRC | — | 51% | Property development |
| Changxing Jiayuan Real Estate Development Co., Ltd 長興佳源房地產開發有限公司 | PRC | — | 30% | Property development |
| Shenzhen Shengyuan Zhiben Commercial Factoring Co., Ltd. 深圳市盛元智本商業保理有限公司 | PRC | — | 30% | Financial services |

In the opinion of the directors, none of the above associates are individually material to the Group. Set out below is the summarised financial information of the associates and Group's share of results:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Carrying amount in the consolidated financial statements | 53,155 | 205,565 |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | 32,652 | 47,485 |
| Total comprehensive income | 32,652 | 47,485 |

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in associates (Continued)

- (i) Guoyang Mingbang was an associate of the Group with 51% equity interest as the Group was not in a position to control the board of Guoyang Mingbang. On 30 April 2019, the Group entered an agreement with Anhui Mingbang Real Estate Co., Ltd (“Anhui Ming Bang”), an independent third party shareholder of Guoyang Mingbang to revise original shareholder’s agreement of Guoyang Mingbang. Upon the execution of the agreement, the Group obtained control in Guoyang Mingbang, which became a subsidiary of the Group. The transaction was treated as business combination of a subsidiary.

Details of the consideration and the financial information of Guoyang Mingbang on the acquisition date is summarised as follows:

| | RMB'000 |
|---|-------------|
| Purchase consideration | |
| – Fair value of investments in the associate held before business combination | 105,706 |
| Total recognised amounts of identifiable assets acquired and liabilities assumed | |
| Property and equipment | 568 |
| Inventories of properties | 1,052,600 |
| Prepaid income tax | 38,926 |
| Trade and other receivables | 94,063 |
| Restricted/pledged bank deposits | 55,621 |
| Cash and cash equivalent | 216,669 |
| Trade and other payables | (65,869) |
| Pre-sale deposits received | (1,151,485) |
| Deferred tax liabilities | (33,826) |
| Total identifiable net assets | 207,267 |
| Non-controlling interests | (101,561) |
| | 105,706 |
| Cash flows on business combination, net of cash acquired | |
| – cash considerations | – |
| – cash and cash equivalents in the subsidiaries acquired | 216,669 |
| Net cash inflow on acquisitions | 216,669 |

The acquired business contributed total revenues of RMB1,271,156,000 and net profit of RMB174,631,000 to the Group for the period from their respective acquisition date to 31 December 2019. Had this business been consolidated from 1 January 2019, the consolidated income statement would show pro-forma revenue of RMB16,188,681,000 and profit for the year attributable to owners of the Company of RMB2,050,664,000.

Upon completion of the transactions on 30 April 2019, the difference between the fair value with the carrying amount of investment in Guoyang Ming Bang of RMB773,000 was recognised as “other gains and losses”.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**(b) Investment in associates (Continued)**

- (ii) As at 31 December 2019, there are no significant contingent liabilities and commitments relating to the Group's interest in the associates (2018: nil).

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|--------------------------------|--------------------------------|
| Debt instruments in the PRC | 107,827 | – |
| Debt instruments in Hong Kong | – | 65,913 |
| Debt instruments in overseas | 545,511 | 419,887 |
| Deposits paid for a life insurance policy | 14,866 | 14,958 |
| Listed equity investments in Hong Kong | 168,775 | 287,612 |
| | 836,979 | 788,370 |
| Less: non-current portion | (668,204) | (80,871) |
| | 168,775 | 707,499 |

- (a) Debt instruments in overseas represents investment in private funds in Australia.
- (b) During the year, the following gains/(losses) were recognised in profit or loss:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|--------------------------------|--------------------------------|
| Fair value change on equity investments at FVPL | (82,146) | 11,970 |
| Fair value change on debt instruments at FVPL | 1,768 | 70 |
| Interest income on financial assets at FVPL | 80,572 | 63,791 |
| | 194 | 75,831 |

- (c) Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

21 DEPOSITS PAID FOR ACQUISITIONS

The Group from time to time enters into agreements with various parties in relation to the acquisition of interest in certain entities which are principally engaged in property development in the PRC. As at 31 December 2019, the Group had made total deposits of RMB1,167,684,000 (31 December 2018: RMB1,935,423,000) in relation to these acquisitions. According to these agreements, in case the acquisitions cannot be completed, the deposits paid will be fully refunded to the Group.

22 DEFERRED INCOME TAX

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the years:

Deferred tax assets

| | Accrued LAT | Revenue | Tax losses | Loss | Others | Total |
|--------------------------------|-------------|------------------------|------------|----------------------|---------|---------|
| | RMB'000 | recognition RMB'000 | RMB'000 | allowance RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2018 (restated) | 176,382 | 175,882 | 34,522 | 17,017 | 782 | 404,585 |
| Acquisition of subsidiaries | – | – | – | 260 | – | 260 |
| Recognised in profit or loss | 160,174 | 2,564 | 7,220 | 4,460 | 564 | 174,982 |
| At 31 December 2018 (restated) | 336,556 | 178,446 | 41,742 | 21,737 | 1,346 | 579,827 |
| At 1 January 2019 | 336,556 | 178,446 | 41,742 | 21,737 | 1,346 | 579,827 |
| Disposal of a subsidiary | – | – | – | – | (59) | (59) |
| Recognised in profit or loss | 67,404 | (34,805) | 7,372 | 1,576 | 520 | 42,067 |
| At 31 December 2019 | 403,960 | 143,641 | 49,114 | 23,313 | 1,807 | 621,835 |

Deferred tax liabilities

| | Fair value of | Revaluation | Others | Total |
|--------------------------------|-------------------------------------|---|---------|-----------|
| | investment properties RMB'000 | due to business combination RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2018 (restated) | (416,528) | (42,371) | – | (458,899) |
| Acquisition of subsidiaries | – | – | (190) | (190) |
| Recognised in profit or loss | (221,702) | – | 4 | (221,698) |
| At 31 December 2018 (restated) | (638,230) | (42,371) | (186) | (680,787) |
| At 1 January 2019 | (638,230) | (42,371) | (186) | (680,787) |
| Acquisition of subsidiaries | – | (33,826) | (5,052) | (38,878) |
| Disposal of a subsidiary | 24,996 | – | – | 24,996 |
| Recognised in profit or loss | (109,309) | – | 50 | (109,259) |
| At 31 December 2019 | (722,543) | (76,197) | (5,188) | (803,928) |

22 DEFERRED INCOME TAX (CONTINUED)

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|---|--|
| Analysed for reporting purpose after netting off: | | |
| Deferred tax assets | 597,494 | 559,179 |
| Deferred tax liabilities | (779,587) | (660,139) |
| | (182,093) | (100,960) |

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2019, the retained earnings of the Group's subsidiaries not yet remitted to holding companies incorporated outside the PRC, for which no deferred income tax liability had been provided, were approximately RMB7,978,370,000 (2018:RMB5,665,263,000). Based on management's estimation of overseas funding requirements, such earnings are expected to be retained by the subsidiaries in the PRC for reinvestment purposes and would not be remitted to their overseas holding companies in the foreseeable future.

At 31 December 2019, the Group had unused tax losses of RMB359,097,000 (31 December 2018: RMB348,970,000), available to offset against future profits. Deferred tax assets have been recognised in respect of tax losses of RMB196,456,000 (31 December 2018: RMB166,968,000). No deferred tax asset has been recognised for the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|------|---|--|
| 2019 | – | 27,069 |
| 2020 | 11,461 | 11,461 |
| 2021 | 5,306 | 5,306 |
| 2022 | 37,012 | 76,522 |
| 2023 | 11,430 | 61,644 |
| 2024 | 97,432 | – |
| | 162,641 | 182,002 |

23 INVENTORIES OF PROPERTIES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|------------------------------|---|--|
| At cost: | | |
| Properties under development | 23,648,474 | 26,514,141 |
| Properties held for sale | 10,462,723 | 5,566,603 |
| Others | 880 | 145 |
| | 34,112,077 | 32,080,889 |

The operating cycle of the Group's property development projects generally ranges from one to two years.

The Group's inventories of properties are situated in the PRC, Hong Kong and Macao (2018: the PRC and Hong Kong).

Amounts of properties under development comprise:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--|---|--|
| – Construction costs including depreciation and staff cost capitalised | 7,839,524 | 10,821,939 |
| – Land use rights | 14,059,202 | 13,910,502 |
| – Borrowing costs capitalised | 1,749,748 | 1,781,700 |
| | 23,648,474 | 26,514,141 |

As at 31 December 2019, properties under development of RMB8,446,822,000 (2018: RMB14,030,601,000) is expected to be realised after twelve months from the end of the reporting date.

The capitalisation rate used to capitalise interest on general borrowings in 2019 was 6.79% (2018: 6.36%) per annum.

23 INVENTORIES OF PROPERTIES (CONTINUED)

The inventories of properties of the Group are located in:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|----------------|---|--|
| Mainland China | 27,693,586 | 26,401,469 |
| Hong Kong | 2,908,609 | 5,679,420 |
| Macao | 3,509,882 | – |
| | 34,112,077 | 32,080,889 |

Details of assets pledged as collateral for the Group's bank and other borrowings are disclosed in Note 33.

24 TRADE AND OTHER RECEIVABLES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--|---|--|
| Trade receivables (a) | 321,910 | 169,791 |
| Other receivables (b) | 5,957,013 | 8,509,584 |
| Prepayments (c) | 1,098,000 | 1,550,214 |
| | 7,376,923 | 10,229,589 |
| Less: loss allowance | (74,654) | (94,621) |
| | 7,302,269 | 10,134,968 |
| Less: Non-current portion of other receivables (b) | (124,934) | (3,909) |
| Current portion of trade and other receivables | 7,177,335 | 10,131,059 |

24 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Details of trade receivables are as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--------------------------------|---|--|
| Trade receivables | 321,910 | 169,791 |
| Less: allowance for impairment | (9,401) | (6,936) |
| Trade receivables – net | 312,509 | 162,855 |

Trade receivables mainly arise from sales of properties, properties rental and properties management services. Customers are generally granted credit terms of nil to 1 month. The ageing analysis of trade receivables based on property delivery date or invoice date is as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--------------|---|--|
| 0-60 days | 187,875 | 61,131 |
| 61-180 days | 83,805 | 34,156 |
| 181-365 days | 19,008 | 52,436 |
| Over 1 year | 31,222 | 22,068 |
| | 321,910 | 169,791 |

As at 31 December 2019 and 2018, trade receivables were mainly denominated in RMB.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2019, a provision of RMB9,401,000 (2018: RMB6,936,000) was made against the gross amounts of trade receivables (Note 4(b)).

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

24 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Details of other receivables are as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|---|--|
| Advances to related parties | 2,225,715 | 3,479,249 |
| Advances to non-controlling interest | 809,626 | 281,990 |
| Advances to investees for acquisitions of land use rights | – | 1,543,472 |
| Deposits paid for acquisitions of land use rights | 420,000 | 456,199 |
| Projects related deposits (i) | 911,030 | 847,354 |
| Deposits for trust financing arrangements (ii) | 146,719 | 366,711 |
| Other deposits (iii) | 453,642 | 275,022 |
| Advance to staff | 55,112 | 49,393 |
| Loans receivable | 587,929 | 705,376 |
| Interest receivable | 190,234 | 164,341 |
| Other receivables | 157,006 | 340,477 |
| | 5,957,013 | 8,509,584 |
| Less: allowance for impairment | (65,253) | (87,685) |
| | 5,891,760 | 8,421,899 |
| Less: non-current portion of deposits for trust financing arrangements (ii) | (124,934) | (3,909) |
| Current portion of other receivables – net | 5,766,826 | 8,417,990 |

- (i) The amount mainly represents the deposits placed at the request of local government. The deposits will be refunded to the Group upon the completion of projects.
- (ii) The amounts are deposited in trust financing companies for raising trust loans to the Group. The deposits will be refunded to the Group upon final repayments of the trust loans or on demand.
- (iii) Other deposits mainly represent temporary payments for potential property development projects to local government. There is no fixed repayment term for these other deposits and the directors of the Company consider they are repayable upon demand.

The above other receivables are unsecured and non-interest bearing, except for the loans receivables which are interest bearing at rates ranging from 12% to 23% (2018: 12% to 23%) per annum.

(c) Prepayments mainly represent prepayments for construction cost, and business and other taxes.

25 RESTRICTED/PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|---|--|
| Cash at banks and on hand | 8,153,513 | 6,702,556 |
| Less: Restricted/pledged bank deposits | | |
| – Pledged bank deposits for mortgage guarantees (<i>Note (a)</i>) | (259,083) | (143,373) |
| – Pledged bank deposits for bank borrowings | – | (1,822,108) |
| – Restricted bank deposits (<i>Note (b)</i>) | (1,864,018) | (137,642) |
| | (2,123,101) | (2,103,123) |
| Cash and cash equivalents | 6,030,412 | 4,599,433 |

- (a) These deposits were pledged to banks, to secure the mortgage provided to customers, and will be released upon obtaining building ownership certificates by customers.
- (b) Restricted bank deposits represent deposits placed in bank accounts in accordance with the applicable government regulations. These bank balances can only be applied in designated property development projects, and they carry prevailing interest at the rate of 0.38% (2018: 0.38%) per annum as at 31 December 2019.
- (c) Cash at banks and deposits held at call carry prevailing market interest rates ranging from 0.01% to 3.65% (2018: 0.01% to 2.20%) per annum as at 31 December 2019.

As at 31 December 2019, the cash at banks are denominated in below currencies:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--------|---|--|
| RMB | 6,128,425 | 4,545,414 |
| HKD | 258,457 | 458,622 |
| USD | 1,765,541 | 1,698,520 |
| Others | 1,090 | – |
| | 8,153,513 | 6,702,556 |

The conversion and the remittance of RMB out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC governments.

26 TRADE AND OTHER PAYABLES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|---|--|
| Trade payables (a) | 3,639,200 | 3,013,951 |
| Advances from non-controlling interests | 729,885 | 843,830 |
| Business and other taxes payable | 514,091 | 438,479 |
| Other deposits received (b) | 375,913 | 505,025 |
| Deposits related to sales of properties | 268,363 | 223,406 |
| Advances from related parties | 234,960 | 682,959 |
| Receipts on behalf of property residents | 210,411 | 103,285 |
| Accrued charges | 101,160 | 239,900 |
| Consideration payable for acquisition of subsidiaries | 95,000 | 97,016 |
| Advance from lessee | – | 15,102 |
| Other consideration payables (c) | 226,500 | 226,500 |
| | 6,395,483 | 6,389,453 |
| Less: Non-current portion of other payables (c) | – | (226,500) |
| Current portion of trade and other payables | 6,395,483 | 6,162,953 |

Notes:

- (a) Trade payables comprise construction costs and other project-related expenses which are due for payment based on project progress measured by the Group. The average credit period of trade payables granted to the Group is 30 days.

The following is an ageing analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--------------|---|--|
| 0-60 days | 2,152,245 | 1,214,667 |
| 61-180 days | 751,103 | 836,029 |
| 181-365 days | 298,295 | 491,048 |
| Over 1 year | 437,557 | 472,207 |
| | 3,639,200 | 3,013,951 |

- (b) Amounts mainly represented various deposits received from contractors in relation to tendering and execution of construction contracts.
- (c) The Group in 2018 acquired Guoyang Xinggang Development Co., Ltd. (渦陽縣星港置業有限公司) from an independent third party vendor. Pursuant to the sales and purchase agreement, as a part of the considerations, the Group is required to transfer 50,000 sq.m. of the completed properties to the vendor. The amount represented the estimated value of the properties to be delivered to the vendor on completion.

27 PRE-SALE DEPOSITS RECEIVED

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--|---|--|
| Contract liabilities related to sales of properties | 18,780,511 | 16,476,241 |
| Contract liabilities related to property management services | 73,018 | 44,320 |
| Value-added tax payable | 1,587,448 | 1,391,300 |
| | 20,440,977 | 17,911,861 |
| Less: non-current portion | (500,510) | (647,722) |
| Current portion | 19,940,467 | 17,264,139 |

The following table shows the amount of the revenue recognised in the current year which relates to carried-forward contract liabilities.

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|---|---|--|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | 13,864,156 | 10,124,147 |

The Group receives 30%-100% of the contract value as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the sale of the completed property is recognised.

28 BANK AND OTHER BORROWINGS

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|--------------------------|---|--|
| Bank loans | | |
| – secured | 3,612,555 | 6,528,528 |
| – secured and guaranteed | 447,500 | 118,347 |
| – unsecured | 500 | – |
| | 4,060,555 | 6,646,875 |
| Trust loans (b) | | |
| – secured | 1,292,305 | 3,700,400 |
| – secured and guaranteed | 5,723,300 | 2,130,800 |
| – unsecured | 687,624 | – |
| | 7,703,229 | 5,831,200 |
| Other loans (c) | | |
| – secured | 66,395 | 2,272,846 |
| – secured and guaranteed | 300,000 | 50,000 |
| | 366,395 | 2,322,846 |
| | 12,130,179 | 14,800,921 |

28 BANK AND OTHER BORROWINGS (CONTINUED)

(a) The borrowings are repayable as follows:

| | 31 December 2019 | | | |
|---|-----------------------|------------------------|------------------------|------------------|
| | Bank loans RMB'000 | Trust loans RMB'000 | Other loans RMB'000 | Total RMB'000 |
| Within one year or on demand | 489,500 | 4,112,035 | 66,395 | 4,667,930 |
| More than one year, but not exceeding two years | 1,120,483 | 3,250,154 | 300,000 | 4,670,637 |
| More than two years, but not exceeding five years | 2,450,572 | 341,040 | – | 2,791,612 |
| | 4,060,555 | 7,703,229 | 366,395 | 12,130,179 |
| Less: Amount due within one year or on demand shown under current liabilities | (489,500) | (4,112,035) | (66,395) | (4,667,930) |
| Amount shown under non-current liabilities | 3,571,055 | 3,591,194 | 300,000 | 7,462,249 |

| | 31 December 2018 | | | |
|---|-----------------------|------------------------|------------------------|------------------|
| | Bank loans RMB'000 | Trust loans RMB'000 | Other loans RMB'000 | Total RMB'000 |
| Within one year or on demand | 1,209,350 | 5,285,600 | 518,046 | 7,012,996 |
| More than one year, but not exceeding two years | 2,802,730 | 545,600 | 1,442,305 | 4,790,635 |
| More than two years, but not exceeding five years | 2,634,795 | – | 362,495 | 2,997,290 |
| | 6,646,875 | 5,831,200 | 2,322,846 | 14,800,921 |
| Less: Amount due within one year or on demand shown under current liabilities | (1,209,350) | (5,285,600) | (518,046) | (7,012,996) |
| Amount shown under non-current liabilities | 5,437,525 | 545,600 | 1,804,800 | 7,787,925 |

28 BANK AND OTHER BORROWINGS (CONTINUED)

- (b) These borrowings are in the form of trust arrangement with trust financing companies. The conventional loan arrangements are loan agreements entered into between the Group and trust financing companies.
- (c) Other loans mainly represent secured loans obtained from asset management companies.
- (d) Fixed-rate borrowings amounting to RMB9,380,127,000 (31 December 2018: RMB13,132,920,000) carry interest ranging from 1.55% to 14.00% (31 December 2018: 1.90% to 15.00%) per annum at 31 December 2019. The remaining borrowings amounting to RMB2,750,052,000 (31 December 2018: RMB1,668,001,000) are arranged at variable rates with the effective interest rates ranging from 4.00% to 6.51% (31 December 2018: 2.3% to 5%) per annum at 31 December 2019.
- (e) The range of effective interest rates at the end of each reporting period is as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 (Restated) |
|-------------|---|--|
| Bank loans | 1.6% to 9.5% | 1.9% to 10.5% |
| Trust loans | 7.1% to 14.0% | 6.4% to 15.0% |
| Other loans | 12.0% to 12.8% | 9.0% to 15.0% |

- (f) At 31 December 2019, the Group has unutilised banking facilities of RMB5,680,390,000 (2018: RMB2,779,560,000).
- (g) Except for bank and other borrowings of RMB2,503,467,000 (31 December 2018: RMB3,951,582,000) which are denominated in HKD and RMB810,503,000 (31 December 2018: nil) which are denominated in USD as at 31 December 2019, all the bank and other borrowings are denominated in RMB.

29 SENIOR NOTES

| | <i>Notes</i> | 2019 RMB'000 | 2018 RMB'000 |
|--|--------------|------------------------|-----------------|
| Issued in 2017 and due April 2019 | | – | 343,473 |
| Issued in 2017 and due May 2019 | | – | 340,117 |
| Issued in 2018 and due January 2019 | | – | 2,657,704 |
| Issued in 2018 and due October 2019 | | – | 1,136,152 |
| Issued in 2018 and due October 2020 | | 122,533 | 2,735,063 |
| Issued in 2019 and due May 2022 | (a) | 1,639,014 | – |
| Issued in 2019 and due March 2022 | (b) | 1,848,218 | – |
| Issued in 2019 and due February 2023 | (c) | 1,665,011 | – |
| | | 5,274,776 | 7,212,509 |
| Less: amount due within one year shown under current liabilities | | (314,084) | (4,477,446) |
| Included in non-current liabilities | | 4,960,692 | 2,735,063 |

29 SENIOR NOTES (CONTINUED)

The movement of senior notes for the year is set out below:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|------------------|-----------------|
| At the beginning of the year | 7,212,509 | 4,330,952 |
| Proceeds from issue of new senior notes | 2,730,999 | 6,136,221 |
| Derivatives financial instruments recognised (e) | (179,897) | – |
| Repayment of senior notes | (4,644,144) | (3,918,140) |
| Exchange difference | 67,098 | 244,313 |
| Interest expenses (Note 11) | 621,541 | 777,336 |
| Interest paid during the year | (533,330) | (358,173) |
| At the end of the year | 5,274,776 | 7,212,509 |

Notes:

- (a) In May 2019, the Company issued senior notes (the "May 2022 Senior Notes I") with a principal amount of USD225,000,000 (equivalent to approximately RMB1,514,588,000), bearing interest at a fixed interest rate of 11.375% per annum and will mature in May 2022. A portion of the May 2022 Senior Notes I was used to exchange for all of the outstanding USD160,000,000 senior notes due October 2019, i.e. the 2018 senior notes due October 2019.

In August 2019, the Company issued senior notes with a principal amount of USD25,000,000 (equivalent to RMB176,425,000) due in May 2022 (the "May 2022 Senior Notes II") which were consolidated with and formed a single series with the May 2022 Senior Notes I.

- (b) In July 2019, the Company issued senior notes (the "March 2022 Senior Notes I") with a principal amount of USD225,000,000 (equivalent to approximately RMB1,545,233,000), bearing interest at a fixed interest rate of 13.75% per annum and will mature in March 2022. A portion of the March 2022 Senior Notes I was used to exchange for a total of USD174,671,000 in principal amount of the senior notes due October 2020.

In November 2019, the Company issued senior notes (the "March 2022 Senior Notes II") with a principal amount of USD30,000,000 (equivalent to approximately RMB210,813,000), which were consolidated with and formed a single series with March 2022 Senior Notes I.

- (c) In October 2019, the Company issued senior notes (the "February 2023 Senior Notes I") with a principal amount of USD200,000,000 (equivalent to approximately RMB1,413,800,000), bearing interest at a fixed interest rate of 13.75% per annum and will mature in February 2023.

In November 2019, the Company issued senior notes (the "February 2023 Senior Notes II") with a principal amount of USD37,500,000 (equivalent to approximately RMB263,336,000), which were consolidated with and formed a single series with February 2023 Senior Notes I.

- (d) The Company is required to make an offer to repurchase the outstanding senior notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, upon the occurrence of change of control triggering event or delisting event. In the opinion of directors, the fair value of the above early redemption options was insignificant on initial recognition.
- (e) All of the above senior notes contain a liability component and early redemption options.

The holders of these senior notes have the right, at their options, to require the Company to repurchase all or any portion of the principal on designated repurchase dates, as set out in the respective offering circulars at purchase prices ranging from 100% to 102.795% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

As at 31 December 2019, the fair value of these put options have been recognised as derivative financial instruments in the consolidated financial statements at the amount of RMB238,387,000 (2018: nil).

Liability component represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company.

- (f) All senior notes issued by the Company are listed. The fair values of the senior notes as at 31 December 2019 were approximately RMB4,962,892,000. The fair value is calculated using the market prices of the senior notes on the date of consolidated statement of financial position.

30 SHARE CAPITAL

| | Number of shares | Nominal value HKD'000 | Nominal value RMB'000 |
|--|---------------------|-----------------------------|-----------------------------|
| Ordinary shares of HKD0.01 each | | | |
| Authorised | | | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 10,000,000,000 | 100,000 | |
| Issued and fully paid | | | |
| At 1 January 2018 | 2,452,000,000 | 24,520 | 20,564 |
| Issue of shares upon scrip dividend scheme | 39,405,402 | 394 | 345 |
| Issue of shares for acquisition of entities under common control | 19,566,400 | 196 | 174 |
| At 31 December 2018 and 1 January 2019 | 2,510,971,802 | 25,110 | 21,083 |
| Issue of shares for acquisition of Chuangyuan Group (Note 1.2) | 50,180,189 | 502 | 434 |
| Issue of shares upon scrip dividend scheme (a) | 5,140,695 | 51 | 45 |
| Issue of shares for acquisition of Huiyuan Group (Note 1.2) | 1,377,959,475 | 13,780 | 12,308 |
| At 31 December 2019 | 3,944,252,161 | 39,443 | 33,870 |

On 26 March 2019, a scrip dividend scheme was proposed by the Board in relation to the 2018 final dividend, pursuant to which, the shareholders of the Company would receive the final dividend wholly by way of an allotment of and issue of scrip shares unless the shareholders elected to receive the final dividend wholly in cash or partly in cash or partly in scrip shares. This proposal was approved at the annual general meeting of the Company held on 13 June 2019. On 30 July 2019, 5,140,695 shares of HKD0.01 each were allotted and issued at HKD3.452 each to shareholders in respect of the 2018 final dividend under the scrip dividend scheme. The shares issued were amounted to HKD17,746,000 (equivalent to RMB15,616,000).

31 CASH FLOW INFORMATION

(a) Cash generated from operations:

| | Note | Year ended 31 December | |
|---|------|------------------------|-------------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | 4,789,537 | 4,493,202 |
| Adjustments for: | | | |
| Interest income on bank deposits | 9 | (79,860) | (72,196) |
| Interest income on loans receivable | 9 | (132,597) | (190,491) |
| Interest income on financial assets at FVPL | 9 | (80,572) | (63,791) |
| Finance costs | 11 | 282,698 | 293,400 |
| Net impairment reversal/(losses) on financial assets | | (19,942) | 94,764 |
| Share of results of investments accounted for using the equity method | 19 | (82,056) | (86,449) |
| Depreciation of property and equipment | 13 | 12,785 | 14,553 |
| Amortisation of intangible assets | | 198 | 12 |
| Foreign exchange loss (gain), net | 10 | 61,144 | 167,016 |
| Losses on disposal of subsidiaries | 10 | 39,709 | – |
| Gains on disposal of associate | 10 | (21,712) | – |
| Loss on disposal of financial assets at FVPL | 10 | 15,232 | – |
| Gain on disposal of property and equipment | 10 | 5 | (115) |
| Fair value change on investment properties | 17 | (437,238) | (365,890) |
| Fair value gain upon transfer of inventories of properties to investment properties | 17 | – | (520,917) |
| Fair value gains on derivative financial instruments | 10 | 55,357 | – |
| Depreciation of right-of-use assets | 13 | 2,311 | – |
| Fair value gain on financial assets at FVPL | | 80,378 | (12,930) |
| Operating cash flows before movements in working capital | | 4,485,377 | 3,750,168 |
| Decrease in inventories of properties | | 629,197 | 955,450 |
| Decrease/(increase) in trade and other receivables | | 1,737,054 | (1,791,442) |
| Increase in financial assets at FVPL | | (78,717) | (274,752) |
| Increase in trade and other payables | | 917,676 | 383,430 |
| Increase in pre-sale deposits received | | 1,139,491 | 4,421,217 |
| Increase in restricted bank deposits | | (208) | (1,300) |
| Cash generated from operations | | 8,829,870 | 7,442,771 |

31 CASH FLOW INFORMATION (CONTINUED)

(b) In the consolidated statement of cash flow, proceeds from disposals of property and equipment comprise:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---------------------------------------|-----------------|-------------------------------|
| Net book amount disposed of (Note 18) | 1,270 | 102 |
| Gains on disposals (Note 10) | (5) | 115 |
| Proceeds | 1,265 | 217 |

(c) Non-cash investing and financing activities

Major non-cash transactions during the year represented the issue of ordinary shares for acquisitions of entities under common control (Note 1.2 and Note 30) and the payment of dividend under scrip dividend scheme (Note 15 and Note 30) .

31 CASH FLOW INFORMATION (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

| | Lease liabilities RMB'000 | Bank and other borrowings RMB'000 | Senior notes RMB'000 | Due to non-controlling interests RMB'000 | Due to related parties RMB'000 | Total RMB'000 |
|--|------------------------------|--------------------------------------|-------------------------|---|-----------------------------------|------------------|
| Net debt as at 31 December 2017 (restated) | – | 14,890,909 | 4,330,952 | 200,314 | 2,936,689 | 22,358,864 |
| Cash flows | | | | | | |
| Financing cash flows | – | (3,008,821) | 1,859,908 | 322,938 | (2,757,028) | (3,583,003) |
| – Acquisitions of subsidiaries | – | 1,526,145 | – | 320,578 | – | 1,846,723 |
| – Consideration payable for acquisition of entities under common control | – | – | – | – | 369,856 | 369,856 |
| – Foreign exchange translation | – | 131,025 | 244,313 | – | – | 375,338 |
| – Interest expenses | – | 1,261,663 | 777,336 | – | 133,442 | 2,172,441 |
| Net debt as at 31 December 2018 (restated) | – | 14,800,921 | 7,212,509 | 843,830 | 682,959 | 23,540,219 |
| Adoption of HKFRS 16 | 13,005 | – | – | – | – | 13,005 |
| Net debt as at 1 January 2019 | 13,005 | 14,800,921 | 7,212,509 | 843,830 | 682,959 | 23,553,224 |
| Cash flows | | | | | | |
| Financing cash flows | (2,641) | (3,913,813) | (2,446,475) | (113,945) | (447,999) | (6,924,873) |
| – Derivative liability component of senior notes | – | – | (179,897) | – | – | (179,897) |
| – Foreign exchange translation | – | (89) | 67,098 | – | – | 67,009 |
| – Interest expenses | 550 | 1,243,160 | 621,541 | – | – | 1,865,251 |
| Net debt as at 31 December 2019 | 10,914 | 12,130,179 | 5,274,776 | 729,885 | 234,960 | 18,380,714 |

32 RETIREMENT BENEFIT PLAN

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in defined contribution retirement schemes administrated by the local municipal government. The Company's PRC subsidiaries contribute funds which are calculated on certain percentage of the employee salary as required by local municipal government to the schemes to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the scheme, which contributions is matched by employees.

The total expense recognised in profit or loss of RMB24,812,000 (2018: RMB20,676,000) represents contribution payable to these plans by the Group at rates specified in the rules of the plans.

33 PLEDGE OF ASSETS

The following assets were pledged to secure the mortgage guarantees provided to customers and certain banking and other facilities granted to the Group at the end of the reporting period:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---|-------------------|-------------------------------|
| Properties under development | 9,841,317 | 14,185,426 |
| Properties held for sale | 606,049 | 370,534 |
| Investment properties | 2,478,600 | 1,048,391 |
| Pledged bank deposits | 259,083 | 1,965,481 |
| Property and equipment | 72,312 | 73,946 |
| Financial assets at fair value through profit or loss | 14,866 | 14,958 |
| | 13,272,227 | 17,658,736 |

34 COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

(a) Commitments for capital expenditures

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---|-----------------|-------------------------------|
| – In respects of projects classified as inventories of properties | 9,676,191 | 8,659,553 |
| – In respects of projects classified as investment properties | – | 116,402 |

(b) Operating lease rentals receivable

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|---------------------------------------|------------------|-------------------------------|
| Within one year | 154,965 | 72,211 |
| In the second to third year inclusive | 178,784 | 154,965 |
| In the third to fourth year inclusive | 109,904 | 178,784 |
| In the fourth to fifth year inclusive | 109,715 | 109,904 |
| After five years | 610,996 | 720,711 |
| | 1,164,364 | 1,236,575 |

35 GUARANTEES

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-------------------|-------------------------------|
| Mortgage guarantees | 13,289,638 | 11,269,932 |
| Pledge of properties held for sale for a related party | - | 123,283 |
| | 13,289,638 | 11,393,215 |

The Group provided guarantees in respect of mortgage bank loans granted to purchasers of the Group's properties. Guarantees are given to banks with respect of loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the purchasers obtaining the relevant building ownership certificate and completion of the relevant mortgage registration.

In the opinion of the directors of the Company, the fair values of these financial guarantee contracts of the Group are insignificant at initial recognition and at relevant reporting dates and accordingly, the directors of the Company consider that the possibility of default by the purchasers of the Group's properties is remote, accordingly, no value has been recognised at the inception of the guarantee contracts and as at 31 December 2019 and 31 December 2018.

36 TRANSACTION WITH NON-CONTROLLING INTERESTS

The aggregate effects of transactions with non-controlling interests on the equity attributable to owners of the Group for the year ended 31 December 2019 are as follows:

| | 2019 RMB'000 |
|--|-----------------|
| Changes in equity attributable to owners of the Company arising from: | |
| – Deemed disposals of interest in subsidiaries without loss of control | 28,644 |

During the year ended 31 December 2019, a third party injected RMB60,000,000 as capital to a subsidiary of the Group without loss of control. The Group recognised an increase in reserve of RMB28,644,000 and increase in non-controlling interest of RMB31,356,000.

37 RELATED PARTY TRANSACTIONS AND BALANCES

The Company is ultimately controlled by Mr. Shum Tin Ching, the Ultimate Shareholder.

(a) Related party transactions

Apart from those related party transactions disclosed above in the consolidated financial statements, the following transactions were carried out with related parties.

| | For the year ended 31 December | |
|--|--------------------------------|-------------------------------|
| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
| (i) Entities controlled by the Ultimate Shareholder and the close family members of the Ultimate Shareholder | | |
| Procurement of intelligent system equipment | 35,947 | 16,912 |
| Procurement of architectural design services | 30,881 | 30,274 |
| Provision of property management services | 36,894 | 28,315 |
| Procurement of electrical appliances | 14,000 | 5,042 |
| Interest expense | – | 133,442 |
| Procurement of consulting services | 12,615 | 25,700 |
| Subscription of the Company's senior notes | 534,377 | – |
| Provision of financial guarantees to the Group | 6,470,800 | 2,299,147 |
| Provision of pledge of properties to the Group | – | 123,283 |
| (ii) Joint ventures | | |
| Provision of property management services | 1,155 | 476 |

The prices for the above transactions were determined in accordance with the terms of the underlying agreements.

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(b) Key management compensation**

| | For the year ended 31 December | |
|--------------------------|--------------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Short term benefits | 14,015 | 11,884 |
| Post-employment benefits | 133 | 275 |
| | 14,148 | 12,159 |

The remuneration of directors and other members of key management is determined with reference to performance of individuals and market trends.

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(c) Related party balances**

At the end of the reporting period, the Group has the following significant balances with related parties:

| | 2019 RMB'000 | 2018 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| (i) Entities controlled by Ultimate Shareholder | | |
| Trading nature and included in: | | |
| – Trade receivables | 22,195 | 3,473 |
| – Other receivables | 2,472 | – |
| – Prepayment | 1,218 | – |
| – Trade payables | 72,572 | 19,718 |
| – Other payables | 228 | – |
| – Pre-sale deposits | 968 | – |
| Non-trading nature and included in: | | |
| – Other receivables | – | 3,406,517 |
| – Other payables | 142,580 | 441,159 |
| (ii) Joint ventures | | |
| Trading nature and included in: | | |
| – Trade receivables | 1,020 | – |
| – Other receivables | 1,045 | – |
| – Trade payables | 2,792 | – |
| Non-trading nature and included in: | | |
| – Other receivables | 2,222,991 | – |
| – Other payables | – | 165,800 |
| (iii) Associates | | |
| Non-trading nature and included in: | | |
| – Other receivables | – | 72,732 |
| – Other payables | 92,380 | 76,000 |
| (iv) Key management of a subsidiary | | |
| Non-trading nature and included in: | | |
| – Other receivables | 2,724 | 2,600 |

The above balances due from/to related parties are mainly interest free, unsecured and to be settled according to the contract terms except for an amount of RMB400,000,000 (2018: nil) due from a joint venture bearing interest at a rate of 8.5% per annum. The amount due to entities controlled by Ultimate Shareholder, amounting to RMB391,204,000 as at 31 December 2018, bore interest at rates ranged from 6.2% to 8.5% per annum with fixed repayment dates within one year. The amount due to a related party amounting to RMB67,611,000 as at 31 December 2018 bore interest at a rate of 7.2% per annum and was repayable within one year.

38 STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

| | As at 31 December | |
|---|-------------------|------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Non-current assets | | |
| Investments in subsidiaries | 4,921,852 | 818,931 |
| Amounts due from subsidiaries | 1,422,969 | 3,118,745 |
| | 6,344,821 | 3,937,676 |
| Current assets | | |
| Other receivables | 1,273,573 | 824,435 |
| Amounts due from subsidiaries | 4,258,371 | 5,369,483 |
| Financial assets at fair value through profit or loss | – | 57,218 |
| Cash and cash equivalent | 10,232 | 439,339 |
| | 5,542,176 | 6,690,475 |
| Current liabilities | | |
| Other payables | 216,835 | 79,055 |
| Amounts due to subsidiaries | 1,282 | 1,282 |
| Bank and other borrowings | – | 382,061 |
| Senior notes | 314,084 | 4,477,446 |
| | 532,201 | 4,939,844 |
| Net current assets | 5,009,975 | 1,750,631 |
| Total assets less current liabilities | 11,354,796 | 5,688,307 |
| Equity | | |
| Share capital | 33,870 | 21,083 |
| Reserves | 6,121,847 | 2,932,161 |
| Total equity | 6,155,717 | 2,953,244 |
| Non-current liabilities | | |
| Senior notes | 4,960,692 | 2,735,063 |
| Derivative financial instruments | 238,387 | – |
| | 11,354,796 | 5,688,307 |

The statement of financial position of the Company was approved by the Board of Directors on 9 March 2020 and was signed on its behalf.

Zhang Yi
Director

Cheuk Hiu Nam
Director

38 STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY (CONTINUED)**Reserve movements of the Company**

| | Share premium RMB'000 | (Accumulated losses) retained earnings RMB'000 | Total RMB'000 |
|--|-----------------------------|--|------------------|
| At 1 January 2018 | 3,216,102 | 216,369 | 3,432,471 |
| Issue of shares upon scrip dividend scheme | 495,310 | – | 495,310 |
| Issue of shares for acquisition of entities under common control | 245,760 | – | 245,760 |
| Dividends | (625,286) | – | (625,286) |
| Loss and total comprehensive loss for the year | – | (616,094) | (616,094) |
| At 31 December 2018 | 3,331,886 | (399,725) | 2,932,161 |
| At 1 January 2019 | 3,331,886 | (399,725) | 2,932,161 |
| Issue of shares upon scrip dividend scheme | 15,571 | – | 15,571 |
| Issue of shares for acquisition of entities under common control | 4,090,177 | – | 4,090,177 |
| Dividends | (248,054) | – | (248,054) |
| Loss and total comprehensive loss for the year | – | (668,008) | (668,008) |
| At 31 December 2019 | 7,189,580 | (1,067,733) | 6,121,847 |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies:

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/ register capital | Place of operations | Principal activities |
|---|------------------------|---|------|---|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Directly held by the Company: | | | | | | |
| Jiayuan Investment Management Limited 佳源投資管理有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan Commercial Properties Company Limited 佳源商業地產有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Indirectly held by the Company: | | | | | | |
| Hong Kong Jiayuan Commercial Properties Limited 香港佳源商業地產有限公司 | Hong Kong | 100% | 100% | HKD10,000 | Hong Kong | Investment holding |
| Hong Kong Youyou Kids Playground Limited 香港優優兒童娛樂有限公司 | Hong Kong | 100% | 100% | HKD10,000 | Hong Kong | Investment holding |
| Yangzhou Baoyuan Commercial Management Co., Ltd 揚州博源商務管理有限公司 | PRC | 100% | 100% | RMB725,500,000 | PRC | Investment holding |
| Nanjing Jiayuan Commercial Management Co., Ltd 南京佳源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Huyuan Holding Limited 滙源控股有限公司 | BVI | 100% | 100% | USD50,000 | Hong Kong | Investment holding |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|--|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Yangzhou Guoyuan Property Development Co., Ltd 揚州國源房地產開發有限公司 | PRC | 100% | 100% | RMB100,000,000 | PRC | Property development |
| Changzhou Chongyuan Commercial Management Co., Ltd 常州崇源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Taixing Hengyuan Commercial Management Co., Ltd 泰興市恒源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Taixing Jiayuan Commercial Management Co., Ltd 泰興市佳源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Yangzhou Jiayuan Commercial Management Co., Ltd 揚州佳源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Taizhou Mingyuan Commercial Management Co., Ltd 泰州明源商業管理有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Property development and investment |
| Jiayuan (Macau) Holding Limited 佳源(澳門)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Hong Kong) Holdings Limited 佳源(香港)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Cambodia) Holdings Limited 佳源(柬埔寨)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Vietnam) Holdings Limited 佳源(越南)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Chuangyuan Holdings Limited 創源控股有限公司 (i) | BVI | 100% | – | USD1 | Hong Kong | Investment holding |
| Hong Kong Jia Yuan Holdings Limited 香港佳源集團有限公司 | Hong Kong | 100% | 100% | HKD990,000 | Hong Kong | Investment and property holding |
| Jiayuan Financial Holdings Limited 佳源金融控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan Property Agency Limited 佳源地產代理有限公司 | BVI | 100% | 100% | HKD1 | Hong Kong | Investment holding |
| Pinyuan Development Limited 品源發展有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Huiyuan Investment Holdings Limited 徽源投資控股有限公司 (i) | BVI | 100% | – | USD1 | Hong Kong | Investment holding |
| Xiangyuan Property Development Limited 祥源地產開發有限公司 | Macau | 100% | 100% | MOP25,000 | Macau | Property development and investment |
| MJY Property Limited 澳門佳源置業有限公司 | Macau | 100% | 100% | MOP25,000 | Macau | Property development and investment |
| Jiayuan (Macau) Investment Limited 佳源(澳門)投資有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan StanGroup Development Company Limited 佳源陞域發展有限公司 | BVI | 70.1% | 70.1% | USD1 | Hong Kong | Investment holding |
| Top Galaxy Limited | BVI | 70.1% | 70.1% | HKD7.8 | Hong Kong | Investment holding |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|----------------------|
| | | 2019 | 2018 | | | |
| Sino Harbour Holdings Limited 國海集團有限公司 | Hong Kong | 70.1% | 70.1% | HKD1 | Hong Kong | Investment holding |
| Jiayuan Investment Development Limited 佳源投資發展有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Vietnam) Investment Limited 佳源(越南)投資有限公司 | Hong Kong | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Vietnam) Management Limited 佳源(越南)管理有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan Property Management Limited 佳源(越南)投資和發展有限公司 | Hong Kong | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Chuangyuan Development Limited 創源發展有限公司 (ii) | BVI | 100% | 100% | USD1 | BVI | Investment holding |
| Jiayuan Property Management Limited 佳源物業管理有限公司 (ii) | Hong Kong | 100% | 100% | HKD1 | Hong Kong | Investment holding |
| Zhejiang Heyuan Property Services Co., Ltd 浙江禾源物業服務集團有限公司 (ii) | PRC | 100% | 100% | RMB300,000,000 | PRC | Investment holding |
| Zhejiang Jiayuan Property Management Services Group Co., Ltd 浙江佳源物業服務集團有限公司 (ii) | PRC | 100% | 100% | RMB50,000,000 | PRC | Property management |
| Ninggang Jiayuan Investment Consulting Group Co., Ltd 寧港佳源投資諮詢集團有限公司 | PRC | 100% | 100% | RMB1,000,000 | PRC | Investment holding |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|--------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Changzhou Jinyuan Property Development Co., Ltd 常州金源房地產開發有限公司 | PRC | 100% | 100% | RMB70,500,000 | PRC | Property development |
| Changzhou Dexin Jiayuan Property Co., Ltd ("Changzhou Dexin") 常州德信佳源置業有限公司 | PRC | 50.50% | 50.50% | RMB220,000,000 | PRC | Property development |
| Yangzhou Guangyuan Property Development Co., Ltd 揚州廣源房地產開發有限公司 | PRC | 100% | 100% | USD22,560,000 | PRC | Property development and investment |
| Taixing Mingyuan Property Development Co., Ltd 泰興市明源房地產開發有限公司 | PRC | 100% | 100% | USD10,000,000 | PRC | Property development |
| Guo Xiang Property Co., Ltd 國祥房地產有限公司 | Hong Kong | 100% | 100% | HKD10,000 | Hong Kong | Investment holding |
| Dinglijia Co., Ltd 鼎立佳有限公司 | Hong Kong | 100% | 100% | HKD1 | Hong Kong | Investment holding |
| Yangzhou Xiyuan Building Materials Sales Co., Ltd 揚州市西源建材銷售有限公司 | PRC | 100% | 100% | USD32,000,000 | PRC | Building materials sales |
| Shenzhen Gangyuan Investment Consulting Co., Ltd. 深圳港源投資諮詢有限公司 | PRC | 100% | 100% | RMB100,000 | PRC | Investment holding |
| Yangzhou Mingyuan Property Development Co., Ltd 揚州明源房地產開發有限公司 | PRC | 100% | 100% | RMB10,000,000 | PRC | Property development and investment |
| Hengli Property Nantong Co., Ltd 恒力房地產南通有限公司 | PRC | 100% | 100% | RMB607,750,000 | PRC | Property development and investment |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|--|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Yangzhou Xiangjiang New City Centre Property Co., Ltd 揚州香江新城市中心置業有限公司 | PRC | 100% | 100% | RMB400,000,000 | PRC | Property development and investment |
| Yangzhou Gangyuan Property Management Co., Ltd ("Yangzhou Gang Yuan") 揚州港源置業管理有限公司 | PRC | 70% | 70% | RMB10,000,000 | PRC | Property development |
| Jiangsu Derun Hongxiang Property Co., Ltd 江蘇德潤鴻翔置業有限公司 | PRC | 100% | 100% | RMB20,000,000 | PRC | Property development and investment |
| Yangzhou Yurun Property Development Co., Ltd 揚州雨潤房地產開發有限公司 | PRC | 100% | 100% | RMB100,000,000 | PRC | Property development |
| Yangzhou Hengyuan Property Development Co., Ltd 揚州恒源房地產開發有限公司 | PRC | 100% | 100% | RMB40,000,000 | PRC | Property development and investment |
| Taizhou Jia Yuan Property Development Co., Ltd 泰州市佳源房地產開發有限公司 | PRC | 100% | 100% | RMB140,000,000 | PRC | Property development and investment |
| Taizhou Mingyuan Property Development Co., Ltd 泰州市明源房地產開發有限公司 | PRC | 100% | 100% | RMB60,000,000 | PRC | Property development and investment |
| Taixing Guangyuan Property Development Co., Ltd 泰興市廣源房地產開發有限公司 | PRC | 100% | 100% | RMB300,000,000 | PRC | Property development and investment |
| Taixing Hengyuan Property Development Co., Ltd 泰興市恒源房地產開發有限公司 | PRC | 100% | 100% | RMB26,670,000 | PRC | Property development and investment |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Suqian Jia Yuan Property Development Co., Ltd ("Suqian Jia Yuan") 宿遷市佳源房地產開發有限公司 | PRC | 90% | 90% | RMB60,000,000 | PRC | Property development |
| Siyang Fengyuan Property Development Co., Ltd 泗陽豐源房地產開發有限公司 | PRC | 100% | 100% | RMB50,000,000 | PRC | Property development and investment |
| Haiyi International Land (Taicang) Co., Ltd 海藝國際置地(太倉)有限公司 | PRC | 100% | 100% | RMB150,000,000 | PRC | Property development |
| Jiayuan Southern (Shenzhen) Group Co., Ltd 佳源南方(深圳)集團有限公司 | PRC | 70% | 100% | RMB100,000 | PRC | Property development and investment |
| Nanjing Jiafeng Consulting Management Co., Ltd 南京嘉豐諮詢管理有限公司 | PRC | 100% | 100% | RMB5,000,000 | PRC | Investment holding |
| Yangzhou Jialian Property Development Co., Ltd 揚州嘉聯置業發展有限公司 | PRC | 70% | 70% | RMB75,087,960 | PRC | Property development |
| Zhuhai Rongyuan Real Estate Co., Ltd 珠海榮源房地產有限公司 | PRC | 60% | 60% | RMB10,000,000 | PRC | Property development |
| Enping Empire Resort and Spa Development Co., Ltd ("Enping Empire") 恩平市帝都溫泉旅遊區發展有限公司 | PRC | 78.3% | 90% | RMB133,000,000 | PRC | Property development |
| Nanjing Rongsheng Construction Consulting Co., Ltd 南京融晟建築諮詢有限公司 (i) | PRC | 100% | – | RMB20,000,000 | PRC | Construction Consulting |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/ register capital | Place of operations | Principal activities |
|--|------------------------|---|------|---|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Nanjing Rongjia Shanju Construction Development Co., Ltd 南京融佳善居建設發展有限公司 (i) | PRC | 60% | – | RMB20,000,000 | PRC | Property development |
| Anhui Yeyuan Real Estate Development Co., Ltd 安徽業源房地產開發有限公司 (i) | PRC | 60% | – | RMB200,000,000 | PRC | Property development |
| Hefei Shuoyuan Real Estate Development Co., Ltd 合肥市碩源房地產開發有限公司 (i) | PRC | 60% | – | RMB100,000,000 | PRC | Property development |
| Nantong Lishun Property Co., Ltd 南通力順置業有限公司 | PRC | 100% | 100% | RMB20,000,000 | PRC | Property development and investment |
| Xinjiang Jiayuan Building Development Co., Ltd 新疆佳源創建房地產開發有限公司 | PRC | 63% | 90% | RMB100,000 | PRC | Property development and investment |
| Guizhou Hengfeng Xingyuan Development Co. Ltd 貴州恒豐佳源房地產開發有限公司 | PRC | 42.7% | 61% | RMB10,000,000 | PRC | Property development and investment |
| Shenzhen Xiangyuan Industry Co., Ltd 深圳市翔源實業有限公司 | PRC | 70% | 100% | RMB100,000,000 | PRC | Property development |
| Changzhou Ruiyuan Real Estate Co., Ltd 常州睿源置業有限公司 | PRC | 100% | 100% | RMB405,000,000 | PRC | Property development |
| Yangzhou Haoyuan Real Estate Development Co., Ltd 揚州浩源房地產開發有限公司 (i) | PRC | 100% | – | RMB20,000,000 | PRC | Property development |
| Nanjing Xinhaoning Property Development Co., Ltd 南京新浩寧房地產開發有限公司 | PRC | 100% | 100% | USD99,000,000 | PRC | Property development |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Nanjing Guangyuan science and Technology Industrial Park Management Co., Ltd 南京廣源科技產業園管理有限公司 (i) | PRC | 100% | – | USD300,000,000 | PRC | Industrial Park Management |
| Shanghai Jiayuan Hucheng Real Estate Group Co., Ltd 上海佳源滬城房地產集團有限公司 | PRC | 90% | 90% | RMB35,000,000 | PRC | Investment holding |
| Shanghai Dongyuan Property Development Co. Ltd ("Shanghai Dongyuan") 上海東源房地產開發有限公司 | PRC | 90% | 90% | RMB10,000,000 | PRC | Property development and investment |
| Shanghai Xiangyuan Property Development Co. Ltd ("Shanghai Xiangyuan") 上海祥源房地產有限公司 | PRC | 90% | 90% | RMB5,000,000 | PRC | Property development and investment |
| Shanghai Dingyuan Property Development Co. Ltd ("Shanghai Dingyuan") 上海定源房地產有限公司 | PRC | 90% | 90% | RMB10,000,000 | PRC | Property development and investment |
| Shanghai Rongyuan Real Estate Co., Ltd 上海榮源房地產有限公司 | PRC | 90% | 90% | RMB100,000,000 | PRC | Property development |
| Jiayuan Capital Limited 佳源資本有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |
| Jiayuan (Saipan) Holdings Limited 佳源(塞班)控股有限公司 | BVI | 100% | 100% | USD1 | Hong Kong | Investment holding |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|-------------------------------------|
| | | 2019 | 2018 | | | |
| Huiyuan Property Development Limited 徽源房地產開發有限公司 (i) | Hong Kong | 100% | – | HKD10 | Hong Kong | Investment holding |
| Anhui Mingyuan Enterprise Management Consulting Co., Ltd 安徽明源企業管理諮詢有限公司 (i) | PRC | 100% | – | RMB30,000,000 | PRC | Enterprise Management Consulting |
| Anhui Jiayuan Real Estate Group Co., Ltd 安徽佳源房地產集團有限公司 (ii) | PRC | 100% | 100% | RMB200,000,000 | PRC | Property development and investment |
| Zhejiang Jiayuan Anhui Real Estate Development Co., Ltd 浙江佳源安徽房地產開發有限公司 (ii) | PRC | 100% | 100% | RMB200,000,000 | PRC | Property development |
| Lujiang Guangyuan Real Estate Development Co., Ltd 廬江縣廣源置業發展有限公司 (ii) | PRC | 99% | 99% | RMB50,000,000 | PRC | Property development |
| Hexian Jiayuan Real Estate Development Co., Ltd 和縣佳源房地產開發有限公司 (ii) | PRC | 78.5% | 78.5% | RMB50,000,000 | PRC | Property development |
| Lixin Mingyuan Real Estate Development Co., Ltd 利辛縣明源房地產開發有限公司 (ii) | PRC | 60% | 60% | RMB75,000,000 | PRC | Property development |
| Guoyang Mingbang Real Estate Co., Ltd 渦陽縣名邦置業有限公司 (i) | PRC | 51% | 51% | RMB100,000,000 | PRC | Property development |
| Fengtai Mingyuan Real Estate Development Co., Ltd 鳳台縣明源房地產開發有限公司 (ii) | PRC | 100% | 100% | RMB35,000,000 | PRC | Property development |

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The following is a list of principal subsidiaries at 31 December 2019, all of these are limited liability companies: (Continued)

| Name of subsidiary | Place of incorporation | Equity interest attributable to the Group | | Issued and fully paid share capital/register capital | Place of operations | Principal activities |
|---|------------------------|---|-------|--|---------------------|----------------------|
| | | 2019 | 2018 | | | |
| Lu'an xinhuaixin Real Estate Co., Ltd 六安新華信置業有限公司 (ii) | PRC | 70% | 70% | RMB100,000,000 | PRC | Property development |
| Guoyang Xinggang Real Estate Co., Ltd 渦陽縣星港置業有限公司 (ii) | PRC | 91% | 91% | RMB200,000,000 | PRC | Property development |
| Bengbu Mingyuan Real Estate Development Co., Ltd 蚌埠明源房地產開發有限公司 (ii) | PRC | 82.5% | 82.5% | RMB171,250,000 | PRC | Property development |
| Lujiang Jiayuan Real Estate Development Co., Ltd 廬江縣佳源房地產開發有限公司 (ii) | PRC | 42% | 42% | RMB100,000,000 | PRC | Property development |
| Shucheng Jiayuan Real Estate Development Co., Ltd 舒城佳源房地產開發有限公司 (ii) | PRC | 55% | 55% | RMB100,000,000 | PRC | Property development |
| Anhui Shuyuan Real Estate Development Co., Ltd 安徽墅源房地產開發有限公司 (i) | PRC | 100% | – | RMB200,000,000 | PRC | Property development |
| Mengcheng Minhe Residential Real Estate Development Co., Ltd 蒙城民和民居房地產開發有限公司 (i) | PRC | 67% | – | RMB30,550,000 | PRC | Property development |

(i) These subsidiaries were newly incorporated during the year ended 31 December 2019.

(ii) These subsidiaries were acquired by the Group under Chuangyuan Acquisition and Huiyuan Acquisition during the year ended 31 December 2019.

For those subsidiaries with equity interest of 50% or less, as the Group has the rights to variable returns from its involvement with those companies, and has the ability to affect those returns through its majority voting position of the board of directors of these companies and the right to determine the budget, pricing and promotion strategies of these companies, the Group thus has control over these companies and these companies are accounted for as subsidiaries of the Group.

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

The English names of the Mainland China companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

The directors of the Company consider that none of the non-controlling interests of the individual subsidiaries were significant to the Group and thus the individual financial information of these subsidiaries is not disclosed.

40 EVENTS AFTER THE REPORTING PERIOD

After the Novel Coronavirus ("COVID-19") outbreak in early 2020, a series of precautionary and control measures have been implemented across the Asia region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of consolidated financial statements was authorised for issue, the Group was not aware of any material adverse effects on its consolidated financial statements as a result of the COVID-19 outbreak.

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