
INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this listing document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by C&W. We engaged C&W to prepare an independent industry report in connection with the Spin-off. The information from official government sources has not been independently verified by us, the Sole Sponsor or any of their respective directors and advisers, or any other persons or parties involved in the Spin-off.

SOURCES OF INFORMATION

We commissioned C&W to prepare the C&W Report as to the real estate markets in China and the regions and cities in which we currently operate. We incurred a total of RMB357,000 for this report.

C&W is a global real estate adviser, which offers a range of services including investment agency, leasing agency, property and facilities management, project and building consultancy, investment and asset management, market research and forecasting and valuation. C&W has 400 offices in 70 countries.

C&W has prepared the industry report based on data from the PRC government, reliable research institutions and the proprietary databases of C&W. During research, C&W conducted interviews with local marketing agents in the residential property sector. C&W Report is based on current as well as the likely future market conditions as perceived by the markets. The estimation of the future demand and supply for the residential property markets may not materialise, and unanticipated events and circumstances may occur; therefore, actual results may vary from our estimates and the variations may be material. C&W Report does emphasise that the estimation of the future market conditions and outlook should be regarded as an indicative assessment of possibilities rather than absolute certainties.

While preparing the industry report and regional ranking information, C&W has relied on the assumptions that the macro-economic environment of each of cities in the PRC in which our Group operates is expected to grow at a steady rate; the political environment of the PRC remains stable; and the real estate industry of each of the cities in the PRC in which our Group operates is expected to grow at a steady rate.

Our Directors confirm that, after taking reasonable care and up to the Latest Practicable Date, there is no adverse change in the market information since the date of the C&W Report or the date of the relevant data contained in the C&W Report which may qualify, contradict or have an impact on the information as disclosed in this section.

OVERVIEW OF THE PRC ECONOMY

Under the influence of various macro-economic policies, the PRC's annual GDP has remained growth with a softening trend, with nominal GDP value increasing from approximately RMB74,359 billion in 2016 to approximately RMB114,367 billion in 2021, representing a CAGR of approximately 9.0%. Urban resident disposable income per capita has increased from approximately RMB33,616 in 2016 to approximately RMB47,412 in 2021, representing a CAGR of approximately 7.1%. The increase in purchasing power has led to an increase in the willingness of urban residents to consume. In 2016, the foreign direct investment was USD126 billion, which has increased steadily in the past five years, reaching USD174 billion by the end of 2021 at a CAGR of 6.6%. It is worth mentioning that total fixed assets investment in the PRC has decreased from approximately RMB60,647 billion in 2016 to approximately RMB55,288 billion in 2021, representing a CAGR of approximately -1.8%.

In 2019, the fixed asset investment in the construction industry decreased by 19.8%, the investment in wholesale and retail industry decreased by 15.9%, and the fixed asset investment in public management and social security decreased by 15.6% compared with the previous year. The fixed asset investment in the real estate industry increased by 9.1%, the investment financial industry increased by 10.4%, and the information technology industries and technical service industries increased by 8.6% compared with the previous year. Affected by the global economic downturn, industrial transformation and upgrading, and the decline in government investment, the growth of fixed asset investment has declined year by year. From 2017 to 2019, in order to bring

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statistical data closer to reality, local governments have successively reformed the fixed asset statistical system and revised statistical rules. Therefore, in 2019, the amount of fixed asset investment experienced a negative growth, while the announced growth rate was 5.1%. In the first half of 2020, with the impact of COVID-19 the growth rate of various indicators of socio-economic statistics has further slowed down.

After the outbreak of COVID-19 in 2020, China implemented travel restrictions, quarantine measures, and lockdowns of several cities in order to contain the spread of the COVID-19. In the first quarter of 2020, businesses around the country have not been able to resume post-festival commercial activity given much of the labour force in the country was still confined to their homes. Supply chains in China have been affected as production and the goods distribution network have been interrupted by factories in the region. The situation was improved since the second half of 2020. As a result, the annual nominal GDP growth of 2020 increased by 2.3%.

However, in 2021, the real GDP growth has recovered to 8.1%, while the urban disposable income per capita growth also increased by 8.2% compared with 2020. In the first half of 2022, the nominal GDP of China reached RMB56,264 billion with a real GDP growth rate of 2.5%.

The table below sets out the selected indicators of the economy in the PRC for the years indicated:

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|--------|--------|--------|--------|---------|---------|--------|-------------------|
| Nominal GDP (RMB billion) | 74,359 | 82,712 | 90,031 | 99,087 | 101,599 | 114,367 | 56,264 | 9.0% |
| GDP per capita (RMB) | 53,980 | 59,660 | 64,644 | 70,892 | 72,447 | 80,976 | N/A | 8.4% |
| Real GDP Growth (%) | 6.7 | 6.9 | 6.6 | 6.1 | 2.3 | 8.1 | 2.5 | N/A |
| Urban disposable income per capita (RMB) . . . | 33,616 | 36,396 | 39,251 | 42,359 | 43,834 | 47,412 | N/A | 7.1% |
| Urban disposable income per capita Growth (%) | 7.8 | 8.3 | 7.8 | 7.9 | 3.5 | 8.2 | N/A | N/A |
| Permanent resident population (million) | 1,383 | 1,390 | 1,395 | 1,400 | 1,443 | 1,413 | N/A | 0.4% |
| Fixed asset investment (RMB billion) | 60,647 | 64,124 | 64,568 | 56,087 | 52,727 | 55,288 | N/A | -1.8% |
| Foreign direct investment (USD billion) | 126 | 131 | 135 | 138 | 144 | 174 | N/A | 6.6% |
| Foreign direct investment Growth (%) | 4.1 | 7.9 | 3.0 | 2.4 | 6.2 | 20.2 | N/A | N/A |
| Urbanisation rate (%) | 57.4 | 58.5 | 59.6 | 60.6 | 63.9 | 64.7 | N/A | N/A |

Notes: N/A means not applicable or not available.

The numbers in 2020 related to population and urbanisation are retrieved from the Statistical Communiques of the Seventh National Population Census, which may vary significantly compared to numbers in other years.

The GDP per capita in 2020 is calculated as nominal GDP divided by permanent resident population while the GDP per capita in other years is retrieved directly from Statistical Communiqué.

Sources: China Statistical Yearbook, National Bureau of Statistics, C&W

THE PRC REAL ESTATE MARKET

Overview

The economic growth, urbanisation and rising standards of living in the PRC have been the main driving forces behind the increasing market demand for properties. The real estate industry in the PRC is dependent on the PRC's overall economic growth, including the increase in the purchasing power of residents in the PRC and the resulting demand for residential properties.

The PRC government has put in place certain policies which are intended to stabilise the property prices and to control the mortgage loan in the PRC. These policies primarily relate to, among others, control over purchasing properties for speculation and adjustment of the minimum capital ratio of fixed asset investment projects according to the economic situations and the necessity of macroeconomic control.

From 2016 to 2021, the total GFA of commodity residential properties sold increased steadily from 1,573 million sq.m. to 1,794 million sq.m, at a CAGR of 2.7%. The real estate investment increased from RMB10,258 billion in 2016 to RMB14,760 billion in 2021. In the first half of 2022, real estate investment in China reached RMB 6,831 billion.

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The table below sets out the selected indicators of the real estate market in the PRC for the years indicated:

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|--|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Real estate investment (<i>RMB billion</i>) | 10,258 | 10,980 | 12,016 | 13,219 | 14,144 | 14,760 | 6,831 | 7.5% |
| Total GFA of commodity properties sold (<i>million sq.m.</i>) | 1,573 | 1,694 | 1,715 | 1,716 | 1,761 | 1,794 | 689 | 2.7% |
| Total GFA of commodity residential properties completed (<i>million sq.m.</i>) | 772 | 718 | 660 | 680 | 659 | 730 | 209 | -1.1% |
| Total GFA of commodity residential properties under construction (<i>million sq.m.</i>) | 5,213 | 5,364 | 5,700 | 6,277 | 6,556 | 6,903 | 5,994 | 5.8% |
| Total GFA of commodity residential properties newly commenced for construction (<i>million sq.m.</i>) | 1,159 | 1,281 | 1,534 | 1,675 | 1,643 | 1,463 | 488 | 4.8% |
| Total GFA of commodity residential properties sold (<i>million sq.m.</i>) | 1,375 | 1,448 | 1,479 | 1,501 | 1,549 | 1,565 | 581 | 2.6% |
| Total sales amount of commodity residential properties (<i>RMB billion</i>) | 9,906 | 11,024 | 12,639 | 13,944 | 15,457 | 16,273 | 5,768 | 10.4% |
| Average selling price of commodity residential properties (<i>RMB per sq.m.</i>) | 7,203 | 7,614 | 8,546 | 9,287 | 9,980 | 10,396 | 9,936 | 7.6% |

Sources: China Statistical Yearbook, National Bureau of Statistics, C&W

Major Factors Driving the Real Estate Market

The rapid growth of the real estate market in the PRC has been mainly driven by the economic growth, rising living standards and urbanisation in the PRC.

The economic growth in the past decades has increased people's disposable income and living standards, which in turn has increased the demand for residential properties. This growing demand for residential properties has directly stimulated the development of the real estate industry in the PRC.

Also, the rapid urbanisation in the PRC and its accompanying growth of the urban population also play an important role in driving the demand for residential properties.

The rapid urbanisation process usually starts with an overcrowded city where migrant workers and job seekers move in to find better job opportunities. The urban area gradually expands into the neighbouring suburban areas forming satellite towns or simply being absorbed into the city forming an enlarged urban area.

Economic Growth — The Urban disposable income per capita in Guangdong Province increased from RMB37,684 in 2016 to RMB54,854 in 2021, representing a CAGR of 7.8%. The Urban disposable income per capita in the PRC increased from RMB33,616 in 2016 to RMB47,412 in 2021, representing a CAGR of 7.1%. The property market is well supported with the economic growth.

Urbanisation — Over the past 6 years, the urbanisation rate in Guangdong Province increased by approximately 1% to 1.5% annually, reaching 74.6% in 2021. The urbanisation rate in the PRC increased by approximately 1% to 1.5% annually, reaching 64.7% in 2021. The migration of rural people into urban areas promotes the steady increase demand of residential property.

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The following table sets forth some economic indicators of Guangdong Province and the PRC for the past 5 years:

| Economic indicators in Guangdong Province | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Urban disposable income per capita (RMB) . . . | 37,684 | 40,975 | 44,341 | 48,118 | 50,257 | 54,854 | 30,057 | 7.8% |
| Permanent resident population (million) | 110 | 112 | 113 | 115 | 126 | 127 | N/A | 2.9% |
| Urbanisation rate (%). | 69.2 | 69.9 | 70.7 | 71.4 | 74.2 | 74.6 | N/A | N/A |

| Economic indicators in the PRC | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Urban disposable income per capita (RMB) . . . | 33,616 | 36,396 | 39,251 | 42,359 | 43,834 | 47,412 | N/A | 7.1% |
| Permanent resident population (million) | 1,383 | 1,390 | 1,395 | 1,400 | 1,443 | 1,413 | N/A | 0.4% |
| Urbanisation rate (%). | 57.4 | 58.5 | 59.6 | 60.6 | 63.9 | 64.7 | N/A | N/A |

Sources: China Statistical Yearbook, National Bureau of Statistics, C&W
Guangdong Statistical Communique, Guangdong Seventh National Census Communique, C&W

The Specific Industry Growth Drivers For The Real Estate Market

From 2016 to 2021, the regional nominal GDP of Guangdong Province and most of its cities both performed a steady growth, which is in line with the overall China economy. It is expected that the regional nominal GDP will continue to be expanding and the fundamental demand for residential properties in Guangdong Province and the PRC will be supported. Due to the shortage of land supply and industrial upgrading, urban renewal is one of the key and common alternative approaches for developers in new land acquisition in the coming years in the PRC. The incentive property policies and the weakened impact of the COVID-19 pandemic also increase housing demand.

The loosening of restrictive policies

According to “the Notice on Further Optimizing the Real Estate Regulation Policy [2022] NO. 23” (《關於進一步優化房地產調控政策的通知》東建房〔2022〕23號) issued by Dongguan government, the policy of restricting the purchase of commercial housing in Dongguan, Guangdong Province has been cancelled. The Dongguan government has cancelled the restrictive policy on home purchases which requires non-residents with registered permanent residence in Dongguan to pay social security for three consecutive years if they purchase a second set of commercial housing. Moreover, residents who purchase the first newly built commercial housing must have settled down for at least six months and have paid social security for six consecutive months within two years prior to the purchase.

It is expected that the loosening of these restrictions would stimulate demand in the real estate market. Since the economic strength and real estate market is improving in Dongguan, the demand for new commodity residential properties becomes a mix of fundamental and investment demand. The loosening of restrictions would also allow homebuyers to buy properties for their own consumption or investment, and allow them to change their residential properties more easily, which will help improve the sales amount of commodity residential properties as a result.

The introduction of urban renewal policies

In recent years, national and local governments have introduced various urban renewal policies. By rolling out the incentive initiatives related to urban renewal in Guangdong and in the PRC, more and more low-efficient land in various cities was redeveloped for better use. By participating in the redevelopment process, real estate companies not only can have more high-quality land to choose from but also can earn more profit.

To further elaborate, many urban villages are located in various developed cities like Guangzhou, Shenzhen, Foshan, and Dongguan. Because of the rapid development of these cities in recent decades, the value of the land of those villages increased significantly. However, the properties built in the urban villages were usually not properly planned at the beginning, which is

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not the highest and best use of the land nowadays. To fully realise the value of the land, governments and land owners carry out urban renewal projects to redevelop those urban villages. As a result, high-quality land is available for real estate companies to redevelop.

The redeveloped properties located on high-quality land are usually very valuable and attractive to property buyers. In addition, by implementing urban renewal projects, the infrastructure and environment of the area are further improved thus further contributing to the value growth of the land.

Recent Development of PRC Real Estate Policies

The Administration of Taxation and the Ministry of Finance jointly issued the “Notice on the Adjustments of Individual Housing Transfer Business Tax Policy” (《關於調整個人住房轉讓營業稅政策的通知》) in March 2015, reducing the application of tax exemption/reduction of the secondary residential transaction from five years to two years. Such a measure should further boost consumer confidence in the secondary residential property market in the PRC.

In January 2016, the Standing Committee of the National People’s Congress announced the formal enforcement of the “Universal Two-child Policy” (全面放開二胎政策) in the PRC, to diversify the population structure and counteract the issue of an ageing population. This relaxation on the population control should further stimulate birth rate and generate demand for housing in the future.

In February 2016, the People’s Bank of China and the China Banking Regulatory Commission jointly issued the “Notice on the Adjustment of Issues about Individual Housing Loan Policy” (《關於調整個人住房貸款政策有關問題的通知》). According to the notice, in cities where there are no home purchase restrictions, down payment for first-time home purchasers was reduced from 30% to 25% and the down payment of second home purchasers (with the mortgage of the first home not yet fully paid) was reduced to not less than 30%. Since down payment had always been the main barrier to home purchase, such relaxation in down payment policy has alleviated housing burdens for the members of the public by effectively increasing home purchasing power, thereby increasing the number of property transactions on the market.

In September and October 2016, home purchase restrictions, as originally introduced under the “Notice of the State Council on Resolutely Curbing the Soaring of Housing Prices in Some Cities” (《國務院關於堅決遏制部分城市房價過快上漲的通知》) issued by the PRC State Council in April 2010, were reactivated in various cities including Beijing, Guangzhou, Tianjin, Zhengzhou, Wuxi, Jinan, Hefei and Wuhan. Such restrictions had the immediate effect of cooling an overheated property market, thus redirecting the market back onto a track of healthy development for the future.

At the 19th National Congress of the Communist Party of China held between 18 and 24 October 2018, the PRC government stated that it would maintain the principle that “houses are built to be inhabited, not for speculation.” The PRC government will increase supply from different channels in a more affordable way, such as promoting the concept of rental housing as important as home purchasing.

On 13 January 2018, China Banking Regulatory Commission issued “The notice of the China Banking Regulatory Commission on further deepening the regulation of chaos in the banking market (no. 4 [2018] issued by the China Banking Regulatory Commission)” (根據中國銀監會關於進一步深化整治銀行業市場亂象的通知(銀監發[2018]4號). Providing various financing for real estate developers to pay land purchase costs or providing financing for real estate developers without “State-owned Land Use Certificate, Land Use Permit, Building Permit, Building Construction Permits”, are belonged to the banking market chaos.

On 20 May 2018, Ministry of Housing announced the notice about urban and rural construction on further issues related to the control of real estate market. It aims to adjust the housing and land supply structure to increase the effective supply of housing and land. This policy will increase the ratio of mid-to-low pricing, mid-to-small area commodity residential properties among the supplies and increase and secure the land supply for public rental housing (公租房) of

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the hotspot cities, at least 25% of the development land use should be allocated for residential development. The policy strives to spend three years to five years to make public rental, rental housing, common property land more than 50% in the supply of new housing land.

On 20 December 2018, the People's Bank of China decided to create Targeted Medium-term Lending Facilities (TMLF), to provide steady capital to small and micro enterprises for long term development depending on their debt growth situation. Targeted medium-term lending and funds can be used for three years, lending rates are 15 basis points higher than the medium-term lending facilities (MLF) rate which is currently 3.15%.

On 16 July 2019, the Ministry of Finance and the State of Taxation jointly issued the "Law of the People's Republic of China on Land Value-added Tax (Draft for Comments)" (《中華人民共和國土地增值稅法(徵求意見稿)》), which intends to stipulate the transfer of land use rights, ground buildings and their attachments shall be subject to land value-added tax in accordance with tax laws. On 27 November, the Ministry of Finance promulgated the "VAT Law of the People's Republic of China (Draft for Comment)" (《中華人民共和國增值稅法(徵求意見稿)》), which adjusted the applicable tax rate for the sale of real estate, lease services, and transfer of land use rights to 9%.

On 15 April 2019, the MOHURD, the National Development and Reform Commission, and the Ministry of Finance jointly issued the "Notice on the Renovation of Old residential areas in 2019" (《關於做好2019年老舊社區改造工作的通知》). The notice pointed out that since December 2017, MOHURD has deployed and carried out pilot projects for the renovation of old residential areas in 12 cities. At the same time, it has been decided to include the renovation into the urban affordable housing project from 2019, and provide financial support from the central government.

On 17 April 2020, the meeting of Political Bureau of the Central Committee of the CPC once again emphasised to promote the stable and healthy development of the real estate market, and to promote a long-term management mechanism that stabilises land prices, housing prices, and market expectations by implementing policies that adapt to local conditions. The Ministry of Finance, the People's Bank of China, the China Banking Regulatory Commission, and the National Bureau of Statistics have repeatedly emphasised that the houses are for living in and not for speculative investment.

MOHURD of the PRC and the Central Bank held a real estate enterprises symposium on 20 August 2020 in Beijing, forming the rules of fund monitoring and financing management for key real estate enterprises. The content has not been officially released but has been interpreted by the market as the "Three Red Lines" (三道紅線政策) finance control direction, that is, the asset-liability ratio of the real estate enterprise after excluding deposit received shall not exceed 70%, the net debt ratio shall not exceed 100% and the cash short-term debt ratio shall not be less than 1. Developers in Dongguan and Huizhou have the need to adjust their financial structure and reduce their debt level in response to the policy and may slow down in new land acquisition.

With the introduction of "Three Red Lines" since August 2021, the average land price remained stable, which reduced slightly from RMB15,502 in the first half of 2020 to RMB15,389 in the first half of 2021. On the other hand, in the first half of 2021, both the land area purchased and the transaction amount of land experienced a decline of 11.8% and 5.7% compared to that in the first half of 2020, respectively. The developers slow down slightly in new land acquisition so as to strengthen their financial strength and this market sentiment is likely to continue in the 2nd half of 2021.

People's Bank of China and the China Banking and Insurance Regulatory Commission issued the "Notice on Establishing a Concentration Management System of Real Estate Loans in 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》) on 28 December 2020. The goal is to prevent potential systemic financial risks caused by the excessive concentration of real estate loans by the financial system and to improve the robustness of banking financial institutions.

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After the introduction of the Notice at the end of 2020, the real estate market transaction decreased. The total GFA of commodity residential properties sold was 791 million sq.m. in the first half of 2021, which dropped 15.7% compared to that in the second half of 2020. The total sales amount of commodity residential properties also experienced a decline, which reduced from RMB9,493 billion in the second half of 2020 to RMB8,463 billion in the first half of 2021 with a drop rate of 10.9%.

MOHURD and other competent departments issued “Notice on Continued Regulation and Standardisation of the Real Estate Market Order” (《住房和城鄉建設部等8部門關於持續整治規範房地產市場秩序的通知》). The major aim of the notice is to bring the real estate market order on the right track in three years and to prohibit illegal market behaviours. The regulatory information system will be improved and developed so as to improve the market transparency.

The 31st Meeting of the Standing Committee of the 13th National People’s Congress passed the “Decision on authorising the State Council to carry out pilot work on real estate tax reform in certain regions” (關於授權國務院在部分地區開展房地產稅改革試點工作的決定). The decision aims to actively and stably promote the legislation and reform of real estate taxation and the sustainable and healthy development of the real estate market. If this policy is introduced to individual buyers in Dongguan and Huizhou in this pilot scheme, the residential property market in Dongguan and Huizhou would be cooled down due to the increase in the holding cost of residential properties.

On 27 January 2011, as the pilot cities of property tax collection on personal housing, Shanghai and Chongqing started to levy taxes on personal housing. After the introduction, the transaction volume of the real estate market in Shanghai was affected. The total GFA of commodity residential properties sold in Shanghai dropped from 9.9 million sq.m. in 2010 to 7.3 million sq.m. in 2011, at an annual decrease of 26.4%. The total sales amount of commodity residential properties in Shanghai also dropped from RMB215.0 billion in 2010 to RMB162.3 billion in 2011, at an annual decrease of 24.5%. However, after 2011, both figures bounced back. The total GFA of commodity residential properties sold in Shanghai increased to 12.79 million sq.m. in 2013 and the total sales amount of commodity residential properties in Shanghai jumped to RMB308.7 billion in 2013. The pilot cities for the latest real estate tax have yet to announce. From the experience of Shanghai, the market will take time to digest the policy, and the transaction volume and sales amount are both expected to decrease shortly after the announcement. The performance of the real estate market is still dependent on many other factors such as economic performance, disposal income, market demand and supply, etc.

In order to stimulate the real estate market, the PRC government has issued different policies (such as the adjustment of the China loan prime rate issued by the People’s Bank of China and further optimization and relaxation of housing purchase policies from January to August 2022).

On 15 May 2022, the People’s Bank of China and China Banking and Insurance Regulatory Commission issued the “Notice of Questions relating to adjusting differentiation housing credit policy” (《關於調整差別化住房信貸政策有關問題的通知》). According to the notice, for families buying ordinary self-live housing with loans, the lower limit of the first housing individual commercial loans is adjusted to not lower than 20 basis points of LPR for the respective loan term.

On 29 September 2022, the People’s Bank of China and the China Banking and Insurance Regulatory Commission decided to make a staged adjustment to the differentiation housing credit policy. City governments that meet the requirement can individually decide on whether to hold, reduce or cancel the lower limit of housing loan credit rates for the first individual housing. Before the adjustment, the lower limit of housing loan credit rates for first individual housing was 4.1%. The adjustment is beneficial to further reducing the credit rates lower than the level of 4.1%.

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To support residents to improve their living environment, the Ministry of Finance and State Administration of Taxation issued the “Announcement on Individual Income Tax Policies Supporting Residents to Exchange Housing” (《關於支持居民換購住房有關個人所得稅政策的公告》). According to the announcement, from 1 October 2022 to 31 December 2023, taxpayers who sold their current housing and rebuy a new one within one year can enjoy a tax refund of personal income tax incurred from selling the previous housing.

On 12 November 2022, the General Office of China Banking and Insurance Regulatory Commission, the General Office of the Ministry of Housing and Urban-Rural Development, and the General Office of the People’s Bank of China jointly issued a “Notice on the Work Related to Issuing Letters of Guarantee by Commercial Banks to Replace Pre-sale Regulatory Funds” (《關於商業銀行出具保函置換預售監管資金有關工作的通知》), to support high-quality real estate companies to utilise presale fund reasonably and reduce liquidity risk of real estate companies. According to the notice, after fully evaluating the credit risk, financial condition, and reputation risk of the company, commercial banks are allowed to issue a letter of guarantee to real estate companies, which can be used to exchange for supervised presale funds.

With the issuance of the policies, real estate companies are expected to have more funds on hand to continue construction projects, and liquidity risk is reduced. Policies will emphasize multi-agent supply and multi-channel guarantee in the real estate market. Reasonable housing demand is still the direction of policy support.

Urban Renewal Overview

Urban renewal (more commonly known by its policy name as “Three-Old Renewal” 三舊改造) has become part of the process in the development of local cities in recent years and has been an important source of urban land supply.

Guangdong is the pioneer in initialising urban renewal by setting up procedures and criteria for land suitable for urban renewal. The practice has been adopted by other provinces and cities where land in urban areas is becoming scarce after years of rapid urbanisation.

Guangdong is a traditional industrial hub, which is currently experiencing industrial upgrading. Under such a situation, more and more “Urban Renewal” projects are emerging in the province, especially in the Greater Bay Area (excluding Hong Kong and Macau) (the “GBA”), providing new opportunities for developers specialising in “Urban Renewal”. “Urban Renewal” projects have the characteristic of long cycles and can provide an alternative way for developers to obtain land.

Urban renewal projects usually involve longer developing cycle, larger capital pressure, greater planning difficulty, and more efforts in negotiations with local government and local existing residents. Moreover, the development of urban renewal projects may involve more procedures than usual. Involvement in urban renewal projects increase the time and resources which may be required for the Group to complete the planning and obtain the necessary approvals, and the Group business operation and financial conditions may also be affected.

Urban renewal projects may also involve uncertainties in respect of the preparatory work, which is typically responsible for the site clearing process undertaken by the relevant local governmental authority, which involves demolition works and resettlement of affected households. Any delay may prolong the resettlement process and the subsequent land acquisition and development process and/or increase the land development costs, which may in turn adversely affect the Group operation. Due to shortage of land supply, urban renewal is one of the key and common alternative approach for developers in new land acquisition in the coming years in the PRC.

The announcement of the respective urban renewal policies will determine the urban renewal models depending on the regions of the urban renewal projects.

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Urban renewal developments in general typically consist of the right owner model (權利人自改模式) and the government-led model (政府主導模式). A comparison of the right owner model and the government-led model is shown below:

| <u>Mode</u> | <u>The right owner model (權利人自改模式)</u> | <u>The government-led model (政府主導模式)</u> |
|--|--|--|
| Typical procedures, roles and responsibilities | <ul style="list-style-type: none"> • The right owner will study the redevelopment potential of the target area under the latest policy framework for economic benefits • The right owner will apply to the government for the proposed urban redevelopment • The demolition and construction works will be carried out by the right owner after obtaining the government approval on redevelopment plan and with the land premium, if any, approved by the government | <ul style="list-style-type: none"> • Government will select a target area tied in with social needs • The target area of urban redevelopment will be published by the government for consultation • The government will release the relevant supporting policies • Land resumption and compensation will be carried out either by the government or in cooperation with property developers • The demolition and construction works will be carried out either by the government or in cooperation with property developers |
| Key characteristics | <ul style="list-style-type: none"> • Market driven • Suitable for project with single title owner or smaller project size in comparison to the government-led model • Project life cycle could be longer and uncertain, subject to economic cycle, government approval schedule, compensation and land premium required | <ul style="list-style-type: none"> • Government driven so as to meet the social needs and supporting policies • Suitable for projects for both single right owner or with complex stake holders • Project size usually covers a larger project size than right owner model • With the support of the government policies, the project life cycle could be shorter |

INDUSTRY OVERVIEW

According to the Department of Natural Resources of Guangdong Province, Guangdong began to implement the “Three-Old Renewal” in 2008, which has improved the level of intensive land use. As of February 2020, a total of 549 sq.km. of land has been renovated and 127 sq.km. of land has been saved. Guangdong has completed a total of 7,905 “Three-Old Renewal” projects, of which 4,367 are industrial restructuring projects, accounting for 55.2% of the total number of projects.

According to “The Fourteenth Five-Year Plan for the National Economic and Social Development of the People’s Republic of Guangdong Province and the Outline of Long-Term Goals for 2035” (《廣東省國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), the future supply of urban renewal till 2025 will be about 1.4 million household units.

According to “Guiding Opinions of the People’s Government of Guangdong Province on Deepening Reform and Accelerating the Promotion of ‘Three Old Renewal’ and Promoting High-quality Development” (《廣東省人民政府關於深化改革加快推動“三舊”改造促進高質量發展的指導意見》) issued by Department of land and resources of Guangdong Province on 11 March 2021, Guangdong is expected to strengthen the marketization operation mechanism of “Three Old Renewal”, and promote the breakthrough development of “Three Old Renewal”. In the policy, the government supports carrying out “Three Old Renewal” on various kinds of land, including old towns, old villages, and collective and state-owned construction land. With the issuance of the policy, we expect the future land supply of Three-Old Renewal” to market entities will be stable and not have significant changes.

The typical life cycle of a single phase residential project may take an average of three to five years from land acquisition to the final delivery of the project. The life cycle of the project may vary due to various factors including the project total size, number of phases, specific technical design difficulties encountered, the recent market supply and demand, etc. In the 1st half 2022, the residential market transaction declined comparing with 2021 and it is believed the overall life cycle may be extended.

Guangdong’s economy is developing rapidly with the dense population and the limited land resources. Therefore, the Guangdong Provincial Government actively encourages the “Three-Old Renewal”. Guangdong has invested a total of RMB1.67 trillion in renovation funds, accounting for about 5% of fixed asset investment in the corresponding period, of which social investment is RMB1.44 trillion, accounting for 86.2% of the total investment in “Three-Old Renewal”.

Our Group was involved in various “Three-Old Renewal” projects in Dongguan and Huizhou. Typical projects since 2018 are Phases 4 and 5 of Castfast Villas, which were developed through “Three-Old Renewal”, with a total site area of 61,864 sq.m..

Due to shortage of land supply in the Shenzhen Metropolitan Area (深圳都市圈) and the Guangzhou Metropolitan Area (廣州都市圈), urban renewal will remain one of the key and common alternative approach for developers in new land acquisition in the coming years in Guangdong.

Competitive Landscape

Competitive advantage

The Group was involved in various “Three-Old Renewal” projects in Dongguan. The Group is able to further make use of “Three-Old Renewal” based on previous project experience, which established relationship with local resources and an experienced management team in dealing with “Three-Old Renewal”. The Group relies on several drivers including selection of development projects being strategically located in Dongguan, Huizhou and Foshan with potential growth and focuses on developing high quality and customer-oriented products. In addition, the Group has an experienced management team in order to ensure the development in alignment with PRC government’s urban renewal policy and facilitates the development of quality development projects in a timely and cost efficient manner.

INDUSTRY OVERVIEW

Entry barriers of the PRC property market

There are several key entry barriers to the PRC property market: restrictions in acquiring land, brand reputation, information asymmetry, high capital commitment, and tightened regulation restrictions. Firstly, the new land supply in key cities is limited, because land lots in prime locations had already been acquired by existing developers on the market. As such, it is more difficult for new developers to compete in the property market. Secondly, existing developers enjoy a certain degree of consumer recognition for their products and reputation, for example, the buyers are inclined to choose residential projects developed by top developers whose name they are familiar with. However, the new developers need more time to build up their reputation. Thirdly, every region has its customs and traditions. The target demographic of residential properties is different in each city in the PRC. Developers newly entering the market will need considerably more time to gather relevant information and adapt to different markets. Fourthly, high capital commitment is required in the property development process to acquire land and fund the labour, material, and construction machinery. Lastly, both national and local governments in China have issued various restrictive policies to regulate the real estate market, which may reduce demand for properties and increase financing burden of the developers.

Threats and challenges

Land for development in the PRC's major cities is becoming increasingly scarce. The supply of newly constructed residential housing is expected to decrease in the coming years. The tightening policy of the real estate market in Guangdong Province and the restricted sales prices of real estate have an impact on the developer's capital chain. The increase in financial costs will also have an impact on the turnaround model that relied on leverage.

Future opportunities

From 2016 to 2021, the nominal GDP of the PRC has increased steadily, and the government is committed to supporting the growth of emerging industries. The upward trend is expected to continue, and this sustained economic expansion will benefit the fundamental demand in the property market.

The Outline Development Plan for Guangdong — Hong Kong — Macau Greater Bay Area was released in February 2019. It aims at combining the strengths of Guangdong, Hong Kong, and Macau and further deepening and broadening the cooperation among the three cities to facilitate in-depth integration within the region and promote coordinated regional economic development. It is expected that by 2035, the GBA should be under an economic system and mode of development mainly supported by innovation, with its economic and technological strengths, vastly increased and its international competitiveness and influence further strengthened.

Since the economic strength and the real estate market is improving, the demand for new commodity residential properties in Dongguan and Huizhou have a mix of fundamental and investment demand.

REAL ESTATE MARKET OF SELECTED DISTRICTS AND CITIES IN THE PRC

Guangdong Province

Guangdong Province is located in the southern region of the PRC with a total land area of 179,700 sq.km. It is divided into 21 prefecture-level divisions, which are further subdivided into 20 directly administered county-level cities. Historically, Guangdong played the role of the gateway to China.

Over the past six years, the urbanisation rate in Guangdong Province increased steadily, reaching 74.6% in 2021. The nominal GDP of Guangdong Province has increased steadily between 2016 and 2021 at a CAGR of 9.0%, reaching RMB 12,437 billion in 2021. However, the real GDP growth rate slowed down between 2017 and 2020, which even dropped to 2.3% in 2020 because of the adverse effect of the pandemic. Because of the recovery of the pandemic, the real GDP growth of Guangdong Province rebounded to 8.0% in 2021.

INDUSTRY OVERVIEW

Due to the Chinese New Year holiday and short-term lock down of cities including Shenzhen and Dongguan so as to carry out cycles of compulsory COVID test, the real GDP growth of Guangdong Province slowed down to 3.3% in the first quarter of 2022. The total GFA of commodity residential properties sold in Dongguan and Huizhou both experienced a decline in the first quarter of 2022, and reduced to 516,951 sq.m. and 1,067,153 sq.m. respectively. It is noted that the lock down was relatively short term for selected areas only, the total GFA of commodity residential properties sold in Dongguan and Huizhou increased back to 542,045 sq.m. and 1,536,764 sq.m. in the second quarter of 2022. On the other side, the average residential selling price in Dongguan and Huizhou remained stable, which reached RMB30,724 and RMB12,872 per sq.m., respectively in the second quarter of 2022.

Dongguan

In recent years, the economy of Dongguan continues to grow rapidly. From 2016 to 2021, the nominal GDP of Dongguan increased annually at a CAGR of 9.7%. The nominal GDP of the city was approximately RMB1,086 billion in 2021. The urban disposable income per capita reached RMB63,740, representing an increase of 8.1% from the previous year. The fixed-asset investment increased from approximately RMB156 billion in 2016 to approximately RMB260 billion in 2021 at a CAGR of 10.8%. The steady growth of the economy in Dongguan is mainly supported by the continuously developing service industry. In the first quarter of 2020, Dongguan's economy was hit by the pandemic. With control on the pandemic and government support, the economy of Dongguan rebounded in the following quarters in 2020, and the GDP had positive growth in 2021 despite the adverse effect caused by the pandemic. In the first half of 2022, the nominal GDP of Dongguan reached RMB518 billion.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|--------|--------|--------|---------|--------|---------|--------|-------------------|
| Nominal GDP (<i>RMB billion</i>) | 683 | 758 | 828 | 948 | 965 | 1,086 | 518 | 9.7% |
| Real GDP Growth (%) | 8.1 | 8.1 | 7.4 | 7.4 | 1.1 | 8.2 | 1.6 | N/A |
| GDP per capita (<i>RMB</i>) | 82,682 | 91,329 | 98,939 | 112,507 | 92,200 | 103,284 | N/A | 4.6% |
| Permanent resident population (<i>million</i>) | 8.26 | 8.34 | 8.39 | 8.46 | 10.47 | 10.54 | N/A | 5.0% |
| Fixed asset investment (<i>RMB billion</i>) | 156 | 171 | 181 | 213 | 240 | 260 | N/A | 10.8% |
| Foreign direct investment (<i>USD billion</i>) | 3.93 | 1.72 | 1.36 | 1.28 | 1.15 | 1.48 | N/A | -17.8% |
| Urbanisation rate (%) | 89.1 | 89.9 | 91.0 | 92.1 | 92.15 | 92.24 | N/A | N/A |
| Urban disposable income per capita (<i>RMB</i>) | 43,096 | 46,739 | 50,721 | 55,156 | 58,052 | 63,740 | N/A | 8.1% |

Notes: N/A means not applicable or not available.

The numbers in 2020 in relation to population and urbanisation are retrieved from the Statistical Communiques of the Seventh National Population Census, which may vary significantly compared to numbers in other years.

The GDP per capita in 2020 is calculated as nominal GDP divided by permanent resident population, while the GDP per capita in other years is retrieved directly from Statistical Communiqué.

Sources: Dongguan Statistical Communiqué, Dongguan Seventh National Census Communiqué, C&W

The residential property market in Dongguan experienced stable growth in recent years. According to the China Real Estate Index System (“**CREIS**”), the real estate investment in Dongguan increased from about RMB 64 billion in 2016 to RMB97 billion in 2021 at a CAGR of 8.7%. The commodity residential properties investment in Dongguan increased from approximately RMB 51 billion in 2017 to approximately RMB 64 billion in 2020 with a CAGR of 7.7%.

INDUSTRY OVERVIEW

The demand for new commodity residential properties in Dongguan is driven by demand for basic housing and investment. The total GFA of commodity residential properties sold experienced a decline since 2016 and increased again in 2019, while the average selling price increased evidently from RMB 13,753 per sq. m. in 2016 to RMB27,570 per sq.m. in 2021 with a CAGR of 14.9%. However, as mentioned above, national and local governments have issued various restrictive policies and regulations on the residential property market. In the long run, these policies play an important role in supporting the stable and healthy development of the real estate market of Dongguan. In the first half of 2022, the real estate investment of Dongguan reached RMB41.8 billion.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|--|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Real estate investment (RMB billion) | 64 | 70 | 74 | 80 | 87 | 97 | 41.8 | 8.7% |
| Commodity residential properties investment (RMB billion). | N/A | 51 | 53 | 57 | 64 | N/A | N/A | 7.7%* |
| Total GFA of commodity residential properties completed (million sq.m.) | N/A | 3.6 | 2.5 | 1.8 | 1.6 | 3.0 | N/A | -3.5%** |
| Total GFA of commodity residential properties under construction (million sq.m.) | N/A | 32 | 31 | 29 | 31 | 45 | N/A | 8.6%** |
| Total GFA of commodity residential properties sold (million sq.m.). | 9.0 | 5.6 | 5.1 | 5.5 | 7.4 | 4.8 | 1.1 | -11.8% |
| Total sales amount of commodity residential properties (RMB billion) | 123 | 93 | 92 | 110 | 179 | 132 | 32 | 1.4% |
| Average selling price of commodity residential properties (RMB per sq.m.) | 13,753 | 16,527 | 17,868 | 20,058 | 24,212 | 27,570 | 29,659 | 14.9% |

Notes: N/A means not applicable or not available.

* 2017-2020 CAGR

** 2017-2021 CAGR

Sources: Dongguan Statistical Communique, CREIS, C&W

Huizhou

In recent years, the economy of Huizhou maintained a steady growth. From 2016 to 2021, the nominal GDP of Huizhou increased steadily at a CAGR of 7.9%. The regional GDP of the city was approximately RMB498 billion in 2021, and the real GDP growth rate in the same year was 10.1%. Urban disposable income per capita increased from approximately RMB33,213 in 2016 to approximately RMB49,243 in 2021 at a CAGR of 8.2%. Fixed asset investment increased from RMB204 billion in 2016 to RMB375 billion in 2021 at a CAGR of 12.9%. Although the pandemic had an adverse impact on the economy of Huizhou, the pandemic was under control in the 2nd half of 2020 and the nominal GDP of Huizhou still had positive growth in 2021.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|--|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Nominal GDP (RMB billion) | 341 | 383 | 410 | 418 | 422 | 498 | 241 | 7.9% |
| Real GDP Growth (%) | 8.2 | 7.6 | 6.0 | 4.2 | 1.5 | 10.1 | 3.6 | N/A |
| GDP per capita (RMB) | 71,605 | 80,205 | 85,418 | 86,043 | 69,864 | 82,113 | N/A | 2.8% |
| Permanent resident population (million) | 4.78 | 4.78 | 4.83 | 4.88 | 6.04 | 6.07 | N/A | 4.9% |
| Fixed asset investment (RMB billion) | 204 | 223 | 230 | 265 | 308 | 375 | N/A | 12.9% |
| Foreign direct investment (USD billion) | 1.14 | 1.14 | 0.96 | 0.93 | 0.81 | 1.15 | N/A | 0.2% |
| Urbanisation rate (%). | 69.05 | 69.55 | 70.76 | 72.12 | 72.8 | 72.9 | N/A | N/A |
| Urban disposable income per capita (RMB) | 33,213 | 36,608 | 39,574 | 42,999 | 45,475 | 49,243 | N/A | 8.2% |

Notes: N/A means not applicable or not available.

The numbers in 2020 in relation to population and urbanisation are retrieved from the Statistical Communiques of the Seventh National Population Census, which may vary significantly compared to numbers in other years.

The GDP per capita in 2020 is calculated as nominal GDP divided by permanent resident population while the GDP per capita in other years is retrieved directly from Statistical Communique.

Sources: Huizhou Statistical Communique, Huizhou Seventh National Census Communique, C&W

INDUSTRY OVERVIEW

The residential property market in Huizhou experienced stable growth in recent years. According to the CREIS, the real estate investment in Huizhou increased from RMB 75 billion in 2016 to RMB132 billion in 2021 at a CAGR of 12.0%. The commodity residential properties investment in Huizhou increased from around RMB 73 billion in 2017 to approximately RMB 101 billion in 2020 with a CAGR of 11.7%.

The demand for new commodity residential properties in Huizhou is driven by demand for basic housing and investment. The total GFA of commodity residential properties sold fluctuated between 2.9 and 16.5 million sq.m., while the average selling price increased evidently from RMB 7,916 per sq. m. in 2016 to RMB10,784 per sq.m. in 2021 with a CAGR of 6.4%. However, as mentioned before, national and local governments have issued various restrictive policies and regulations on the residential property market. In the long run, these policies play an important role in supporting the stable and healthy development of the real estate market of Huizhou. In the first half of 2022, the real estate investment of Huizhou reached RMB54 billion.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|-------|--------|--------|--------|--------|--------|--------|-------------------|
| Real estate investment (RMB billion) | 75 | 88 | 98 | 115 | 125 | 132 | 54 | 12.0% |
| Commodity residential properties investment (RMB billion). | N/A | 73 | 81 | 96 | 101 | N/A | N/A | 11.7%* |
| Total GFA of commodity residential properties completed (million sq.m.) | N/A | N/A | 3.9 | 5.2 | 5.2 | N/A | N/A | 14.7%** |
| Total GFA of commodity residential properties under construction (million sq.m.) | N/A | 59 | 61 | 72 | 79 | N/A | N/A | 10.1%* |
| Total GFA of commodity residential properties sold (million sq.m.) | 5.4 | 3.4 | 2.9 | 13.7 | 16.5 | 10.3 | 2.6 | 14.0% |
| Total sales amount of commodity residential properties (RMB billion) | 42 | 34 | 32 | 137 | 182 | 117 | 31 | 22.8% |
| Average selling price of commodity residential properties (RMB per sq.m.) | 7,916 | 10,151 | 10,804 | 10,070 | 11,000 | 10,784 | 12,099 | 6.4% |

Notes: N/A means not applicable or not available.

Regarding the data of “Total GFA of commodity residential properties sold”, from 2016 to 2018 the data is limited to Huicheng District, while the data in 2019 and 2020 is for the entire Huizhou City.

* 2017-2020 CAGR

** 2018-2020 CAGR

Sources: Huizhou Statistical Communique, CREIS, C&W

Foshan

In recent years, the economy of Foshan continues to grow rapidly. From 2016 to 2021, the nominal GDP of Foshan increased annually at a CAGR of 7.1%. The regional GDP of the city was approximately RMB1,216 billion in 2021. The urban disposable income per capita reached RMB62,842 in 2021 at a CAGR of 7.8%. The fixed-asset investment increased from approximately RMB351 billion in 2016 to approximately RMB516 billion in 2021 at a CAGR of 8.0%. In the first quarter of 2020, Foshan’s economy was hit by the pandemic. With control on the pandemic and government support, the economy of Foshan rebounded in the following quarters in 2020, and the GDP had positive growth in 2020 despite the adverse effect caused by the pandemic. According to the Plan of Foshan Municipal Land Space (2020–2035), Foshan plans to build a 4F-class Pearl River Delta hub Airport (Guangzhou New Airport), West Railway Station and Foshan New High-speed Railway Station. The construction of the new airport and high-speed railway station has begun in 2022 and is expected to be completed during the “Fourteenth Five Year Plan”. The economic indicators are as follows:

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|-------------------------------------|------|------|------|-------|-------|-------|--------|-------------------|
| Nominal GDP (RMB billion) | 863 | 955 | 994 | 1,075 | 1,082 | 1,216 | 575 | 7.1% |
| Real GDP Growth. | 8.3 | 8.5 | 6.3 | 6.9 | 1.6 | 8.3 | 2.8 | N/A |

INDUSTRY OVERVIEW

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|---|---------|---------|---------|---------|---------|---------|--------|-------------------|
| GDP per capita (RMB) | 115,684 | 124,674 | 125,664 | 131,775 | 113,871 | 126,465 | N/A | 1.8% |
| Permanent resident population (million) | 7.46 | 7.66 | 7.91 | 8.16 | 9.50 | 9.61 | N/A | 5.2% |
| Fixed asset investment (RMB billion) | 351 | 427 | 451 | 475 | 479 | 516 | N/A | 8.0% |
| Foreign direct investment (USD billion) | 1.47 | 1.62 | 0.69 | 0.74 | 0.67 | 0.52 | N/A | -18.8% |
| Urbanisation rate (%) | 95.0 | 95.0 | 95.0 | 95.0 | 95.2 | 95.2 | N/A | N/A |
| Urban disposable income per capita (RMB) | 43,120 | 46,849 | 50,737 | 55,233 | 57,445 | 62,842 | N/A | 7.8% |

Notes: N/A means not applicable or not available.

The numbers in 2020 in relation to population and urbanisation are retrieved from the Statistical Communiques of the Seventh National Population Census, which may vary significantly compared to numbers in other years.

The GDP per capita in 2020 is calculated as nominal GDP divided by permanent resident population, while the GDP per capita in other years is retrieved directly from Statistical Communiqué.

Sources: Foshan Statistical Communiqué, Foshan Seventh National Census Communiqué, C&W

The residential property market in Foshan experienced stable growth in recent years. According to the CREIS, the real estate investment in Foshan increased from RMB123 billion in 2016 to RMB234 billion in 2021 at a CAGR of 13.8%. The commodity residential properties investment in Foshan increased from around RMB86 billion in 2016 to approximately RMB181 billion in 2021 with a CAGR of 16.0%.

The demand for new commodity residential properties in Foshan is driven by demand for basic housing and investment. The total GFA of commodity residential properties sold experienced a decline since 2016, which decreased from 19.1 million sq.m. to 11.2 million sq.m. between 2016 and 2021. On the contrary, the average selling price increased evidently from RMB9,520 per sq. m. in 2016 to RMB18,265 per sq.m. in 2021 with a CAGR of 13.9%. However, as mentioned before, national and local governments have issued various restrictive policies and regulations on the residential property market. In the long run, these policies play an important role in supporting the stable and healthy development of the real estate market of Foshan. In the first half of 2022, Foshan's real estate investment reach RMB102 billion.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022H1 | 2016-2021 CAGR |
|--|-------|--------|--------|--------|--------|--------|--------|-------------------|
| Real estate investment (RMB billion) | 123 | 145 | 201 | 215 | 229 | 234 | 102 | 13.8% |
| Commodity residential properties investment (RMB billion) | 86 | 102 | 148 | 153 | 171 | 181 | 79 | 16.0% |
| Total GFA of commodity residential properties completed (million sq.m.) | N/A | 5.0 | 3.7 | 4.1 | 2.7 | 2.9 | 1.6 | -12.5%* |
| Total GFA of commodity residential properties under construction (million sq.m.) | 49 | 58 | 66 | 66 | 66 | 64 | 53 | 5.4% |
| Total GFA of commodity residential properties sold (million sq.m.) | 19.1 | 12.1 | 14.7 | 11.8 | 12.8 | 11.2 | 3.8 | -10.1% |
| Total sales amount of commodity residential properties (RMB billion) | 182 | 122 | 159 | 140 | 197 | 205 | 68.8 | 2.4% |
| Average selling price of commodity residential properties (RMB per sq.m.) | 9,520 | 10,061 | 10,763 | 13,282 | 15,414 | 18,265 | 18,172 | 13.9% |

Notes: N/A means not applicable or not available.

*2017-2021 CAGR

Sources: Foshan Statistical Communiqué, CREIS, C&W

INDUSTRY OVERVIEW

MARKET COMPETITION CONCERNING OUR GROUP

The Competitive Landscape in the Residential Property Market in the Dongguan

The following table shows the top five listed real estate developers rankings of Dongguan in terms of contracted GFA sold in 2021 extracted from the top 100 rankings of property developers from CREIS for reference:

| Rank | Name of property developers | Sales area (sq.m.) | Contracted sales amount (RMB million) | Percentage of total sales area in Dongguan (%) |
|-------------|--|-----------------------|--|---|
| 1 | Country Garden Holdings Ltd (碧桂園控股有限公司) | 674,729 | 16,472 | 10.7% |
| 2 | China Vanke Co., Ltd. (萬科企業股份有限公司) | 649,800 | 20,361 | 10.3% |
| 3 | Poly Developments and Holdings Group Co., Ltd. (保利發展控股集團股份有限公司) | 538,875 | 16,282 | 8.5% |
| 4 | Gemdale (Group) Co., LTD 金地(集團)股份有限公司 | 338,521 | 8,384 | 5.4% |
| 5 | Kaisa Group Holdings LTD 佳兆業集團控股有限公司 | 319,206 | 8,463 | 5.0% |

Country Garden Holdings Ltd is a listed PRC residential property developer established in 1992 and headquartered in Foshan.

China Vanke Co., Ltd. is a listed PRC residential property developer established in 1984 and headquartered in Shenzhen.

Poly Developments and Holdings Group Co., Ltd. is a listed PRC residential property developer established in 1992 and headquartered in Guangzhou.

Gemdale (Group) Co., LTD is a listed PRC residential property developer established in 1988 and headquartered in Shenzhen.

Kaisa Group Holdings LTD is a listed PRC residential property developer established in 1999 and headquartered in Shenzhen.

Source: CREIS, C&W

The Competitive Landscape in the Residential Property Market in the Huizhou

The following table shows the top five listed real estate developers rankings of Huizhou in terms of contracted GFA sold in 2021 extracted from the top 100 rankings of property developers from CREIS for reference:

| Rank | Name of property developers | Sales area (sq.m.) | Contracted sales amount (RMB million) | Percentage of total sales area in Huizhou (%) |
|-------------|---|-----------------------|--|--|
| 1 | Country Garden Holdings Ltd (碧桂園控股有限公司) | 970,476 | 11,639 | 8.5% |
| 2 | Kaisa Group Holdings LTD (佳兆業集團控股有限公司) | 569,839 | 4,771 | 5.0% |
| 3 | Longguang Group Co. LTD (龍光集團有限公司) | 407,944 | 4,486 | 3.6% |
| 4 | China Vanke Co., Ltd. (萬科企業股份有限公司) | 358,105 | 4,633 | 3.1% |
| 5 | Poly Developments and Holdings Group Co., Ltd (保利發展控股集團股份有限公司) | 232,930 | 2,877 | 2.0% |

Country Garden Holdings Ltd is a listed PRC residential property developer established in 1992 and headquartered in Foshan.

Kaisa Group Holdings LTD is a listed PRC residential property developer established in 1999 and headquartered in Shenzhen.

Longguang Group Co. LTD is a listed PRC residential property developer established in 1996 and headquartered in Shenzhen.

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China Vanke Co., Ltd. is a listed PRC residential property developer established in 1984 and headquartered in Shenzhen.

Poly Developments and Holdings Group Co., Ltd. is a listed PRC residential property developer established in 1992 and headquartered in Guangzhou.

Source: CREIS, C&W

Historical price trends of raw materials

While the annual wage of the construction industry and land selling prices are increasing in the last few years, prices for cement and steel show more volatility. As selling prices are market-dependent, the developer may not be able to pass any increase in material cost onto the customers immediately.

The average annual wage of construction industry, average land price and purchasing price index of building materials industry producers, cement and steel price index industrial producers in the PRC from 2018 to 2021 are set out below:

| | 2018 | 2019 | 2020 | 2021 |
|--|--------|--------|--------|-------|
| Average Annual Wage of Construction industry (RMB) | 50,879 | 54,167 | 57,309 | N/A |
| Average Land Price (RMB per sq.m.) | 5,509 | 5,696 | 6,762 | N/A |
| Purchasing Price Index of Building Materials Industry Producers | 110.5 | 104.2 | 100.5 | N/A |
| Comprehensive China Steel Price Index ("CSPI") | 107.1 | 106.1 | 124.5 | 131.7 |

Note: N/A means not applicable or not available.

Sources: National Bureau of Statistics and China Iron and Steel Association, C&W (with respect to CSPI)

According to the Comprehensive China Steel Price Index ("CSPI"), the steel price in China had an upward trend from 2018 to 2021, which rose from 107.1 to 131.7 during the period. The details of Comprehensive CSPI from 2018 to 2021 is set out below:

According to www.Ccement.com ("水泥网"), the China Cement Price Index ("CEMPI") was 149.2 as at 31 March 2021, which rose to 159.1 as at 31 May 2022, showing a general upward trend. During this period, the CEMPI was fluctuating between 139.3 and 213.7, reflecting the volatile nature of cement prices in China.