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## 天譽置業(控股)有限公司 SKYFAME REALTY (HOLDINGS) LIMITED

(於百慕達註冊成立之有限公司)

(股份代號：00059)

### 海外監管公佈

本海外監管公佈乃由天譽置業(控股)有限公司(「本公司」)根據香港聯合交易所有限公司(「聯交所」)證券上市規則(「上市規則」)第13.10B條而發出。

敬請參閱隨附日期為二零一九年六月二十八日之原要約備忘錄之補充要約備忘錄，名為「US\$100,000,000 13.0% Senior Notes due 2022 (to be consolidated and form a single class with the US\$105,000,000 13.0% Senior Notes due 2022) Issue Price: 100.0% plus accrued interest from (and including) July 8,2019 to (but excluding) September 9,2019」(100,000,000美元於二零二二年到期之13.0%計息優先票據(其將與105,000,000美元於二零二二年到期之13.0%計息優先票據合併及構成單一類別)，發行價：100.0%加由(及包括)二零一九年七月八日至(但不包括)二零一九年九月九日之應計利息)(「補充要約備忘錄」)，《補充要約備忘錄》由二零一九年九月十二日起可於新加坡證券交易所有限公司之網站閱覽。

在聯交所網站刊載《補充要約備忘錄》之目的僅為方便向香港投資者發佈相同資料以及遵守《上市規則》第13.10B條的規定，其概無任何其他目的。

《補充要約備忘錄》並不構成在任何司法管轄區向公眾人士要約發售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦並非邀請公眾人士作出認購或購買任何證券的要約，且不旨在邀請公眾人士作出認購或購買任何證券的要約。

《補充要約備忘錄》不得被視為誘導認購或購買本公司任何證券，亦不擬作出上述誘導。不應根據《補充要約備忘錄》內所載的資料作出投資決定。

承董事會命  
天譽置業(控股)有限公司  
主席  
余斌

香港，二零一九年九月十二日

於本公佈日期，本公司董事會包括三名執行董事：余斌先生(主席)、文小兵先生及王成華先生；一名非執行董事：黃樂先生；以及三名獨立非執行董事：蔡澍鈞先生、鄭永強先生及鍾麗芳女士。

## STRICTLY CONFIDENTIAL – DO NOT FORWARD

**THIS SUPPLEMENTAL 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 DO SO.**

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

**Confirmation of Your Representation:** In order to be eligible to view this supplemental offering memorandum or make an investment decision with respect to the securities, you must comply with the following provisions. You have accessed the attached document on the basis that you have confirmed your representation to Skyfame Realty (Holdings) Limited (1) that you are outside the United States and to the extent you purchase the securities described in the attached supplemental offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and (2) that you consent to delivery of the attached supplemental offering memorandum and any amendments or supplements thereto by electronic transmission.

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

**Prohibition of Sales to EEA Retail Investors** – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the 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 New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

The attached supplemental offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of China CITIC Bank International Limited, Dongxing Securities (Hong Kong) Company Limited, Kaiser Securities Limited, Future Land Resources Securities Limited and Kaisa Financial Group Company Limited (the “Initial Purchasers”) or any person who controls them or any of their respective directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so. The securities referred to in the attached document have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. You are reminded that you have accessed the attached supplemental offering memorandum on the basis that you are a person into whose possession this supplemental offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

**Actions That You may Not Take:** You should not reply by e-mail to this electric transmission, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

YOU ACKNOWLEDGE THAT THE ATTACHED DOCUMENT AND THE INFORMATION CONTAINED THEREIN ARE STRICTLY CONFIDENTIAL AND INTENDED FOR YOU ONLY. YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED SUPPLEMENTAL OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH SUPPLEMENTAL OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED SUPPLEMENTAL OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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天譽置業（控股）有限公司  
SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)  
(Stock Code: 00059)

**US\$100,000,000 13.0% SENIOR NOTES DUE 2022**  
**(to be consolidated and form a single class with the**  
**US\$105,000,000 13.0% Senior Notes due 2022)**  
**Issue Price: 100.0% plus accrued interest from (and including)**  
**July 8, 2019 to (but excluding) September 9, 2019**

Skyfame Realty (Holdings) Limited (the “Company”) is issuing 13.0% Senior Notes due 2022 in the aggregate principal amount of US\$100,000,000 (the “New Notes”). The New Notes will be consolidated and form a single class with the 13.0% Senior Notes due 2022 in the aggregate principal amount of US\$105,000,000 issued by the Company on July 8, 2019 (the “Original Notes” and, together with the New Notes, the “Notes”). The Notes will bear interest at the rate of 13.0% per annum, payable semi-annually in arrears on January 8 and July 8 of each year, commencing January 8, 2020. The Notes will mature on July 8, 2022. The New Notes have the same terms and conditions as the Original Notes in all respects except for issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance. Upon completion of this offering, the aggregate principal amount of the outstanding Notes will be US\$205,000,000.

This supplemental offering memorandum incorporates the information contained in the attached original offering memorandum dated June 28, 2019 (the “Original Offering Memorandum”) and should be read in conjunction with the Original Offering Memorandum. To the extent that there is any inconsistency between any information in this supplemental offering memorandum and the Original Offering Memorandum, the information in this supplemental offering memorandum shall prevail. Terms not defined in this supplemental offering memorandum have the meanings given to them in the Original Offering Memorandum.

The Notes will be (1) general obligations of the Company, (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (4) effectively subordinated to secured obligations (if any) of the Company to the extent of the value of the assets serving as security therefor (other than the Collateral) and (5) effectively subordinated to all existing and future obligations of the Subsidiaries. The Notes will be secured by the capital stock of Winprofit Investments Limited. In addition, applicable law may limit the enforceability of the pledge of any collateral. See the section headed “Risk Factors – Risks Relating to the Collateral” beginning on page 38 of the Original Offering Memorandum.

At any time and from time to time prior to July 8, 2022, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.0% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions. In addition, we may at our option redeem the Notes, in whole but not in part, at any time prior to July 8, 2022, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as set forth in the Original Offering Memorandum, and accrued and unpaid interest, if any, to (but not including) the redemption date. We shall, at the option of any holder of the Notes, repurchase all of the Notes held by such holder on July 8, 2021 at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) July 8, 2021. Upon the occurrence of a Change of Control Triggering Event (as defined in the section entitled “Description of the Notes” in the Original Offering Memorandum), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. Subject to certain exceptions, we 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 but excluding the redemption date, if the Company would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws.

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 109 in the Original Offering Memorandum.

**Investing in the New Notes involves risks. See “Risk Factors” beginning on page S-7 in this supplemental offering memorandum and page 11 in the Original Offering Memorandum.**

The Original Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the New Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company or the New Notes.

The New Notes are expected to be assigned a rating of B- by Fitch Ratings Ltd (“Fitch”). The rating does not constitute a recommendation to buy, sell or hold the New Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning agency. A suspension, reduction or withdrawal of the rating assigned to the New Notes may adversely affect the market price of the New Notes.

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

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the New Notes with the NDRC and obtained a certificate from the NDRC dated February 3, 2019 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the New Notes to be reported to the NDRC within ten working days after the issue date of the New Notes.

It is expected that the delivery of the New Notes will be made on or about September 9, 2019 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

**China CITIC Bank International**

**Dongxing Securities (Hong Kong)  
Company Limited**

**Joint Bookrunners and Joint Lead Managers**

**Kaiser Financial Group**

**Future Land Resources**

**Kaisa Financial Group  
Company Limited**

The date of this supplemental offering memorandum is September 2, 2019

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This supplemental offering memorandum does not purport to nor does it contain all information that a prospective investor may require in investigating us, prior to making an investment in relation to the New Notes. This supplemental offering memorandum is not, and does not purport to be, investment advice. A prospective investor should make an investment in the New Notes only after it has determined that such investment is suitable for its investment objectives. Determining whether an investment in the New Notes is suitable is a prospective investor's responsibility. Neither this supplemental offering memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the New Notes (or any part thereof) is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us that any recipient of this supplemental offering memorandum or any such other document or information (or any part thereof) should subscribe for or purchase or sell any of the New Notes. Each person receiving this supplemental offering memorandum acknowledges that such person has not relied on us or our subsidiaries and associated companies (if any) or any person affiliated with each of them in connection with its investigation of the accuracy or completeness of the information contained herein or of any additional information considered by it to be necessary in connection with its investment decision. Any recipient of this supplemental offering memorandum contemplating subscribing for or purchasing any of the New Notes should determine for itself the relevance of the information contained in this supplemental offering memorandum and any such other document or information (or such part thereof) and its investment should be, and shall be deemed to be, based solely upon its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of us and our subsidiaries and associated companies (if any), the structures and terms of the New Notes and any other factors relevant to its decision, including the merits and risks involved. A prospective investor should consult with its legal, tax and financial advisers prior to deciding to make an investment in the New Notes.

**This supplemental 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 supplemental 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 supplemental offering memorandum or that the information contained in this supplemental offering memorandum is correct as of any time after that date.**

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

**Prohibition of Sales to EEA Retail Investors – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the 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, as amended or superseded (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.**

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

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

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

We have prepared this supplemental 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 New Notes. By purchasing the New Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by China CITIC Bank International Limited, Dongxing Securities (Hong Kong) Company Limited, Kaiser Securities Limited, Future Land Resources Securities Limited and Kaisa Financial Group Company Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), the Agents (as defined under “Description of the Notes” in the Original Offering Memorandum) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this supplemental offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this supplemental 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, Trustee or any person affiliated with the Initial Purchaser or the Trustee 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 New Notes (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 New 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 or the Trustee.

**THE NEW NOTES 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 HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE ISSUANCE OF THE NEW NOTES OR THE ACCURACY OR ADEQUACY OF THIS SUPPLEMENTAL 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 New Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this supplemental offering memorandum and the issuance of the New Notes may in certain jurisdictions be restricted by law. Persons into whose possession this supplemental offering memorandum comes are required by us to inform themselves about and to observe any such restrictions. The New Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws or exemption therefrom. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. For a description of the restrictions on offers, sales and resales of the New Notes and distribution of this supplemental offering memorandum, see “Transfer Restrictions” and “Plan of Distribution” below.

This supplemental offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this supplemental offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the issuance, including the merits and risks involved. None of the Company, the Trustee, the Agents or our or their respective directors, officers or advisors is making any representation to you regarding the legality of an investment in the New Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this supplemental offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the New Notes.

## **RECENT DEVELOPMENTS**

### **UNAUDITED AND UNREVIEWED PRELIMINARY FINANCIALS AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2019**

On August 20, 2019, we released the 2019 interim results announcement in accordance with the rules of the Hong Kong Stock Exchange as applicable to us, which include the preliminary unaudited and unreviewed consolidated interim financial information as of and for the six months ended June 30, 2019 (the “2019 Preliminary Interim Financial Information”).

For the six months ended June 30, 2019, we recorded a slight decrease in our revenue and profit for the period, respectively, compared to that of the same period in 2018. The decrease in revenue was mainly due to the lower ASP of properties in Nanning Skyfame Garden delivered for the six months ended June 30, 2019, which involved compensated housing sold to the district government, as compared to the ASP for the properties delivered for the same period in 2018. The decrease in our profit for the period was primarily because we did not have gain on properties valuation and gain from bargain purchase of new projects for the six months ended June 30, 2019 as compared to the same period in 2018. For the six months ended June 30, 2019, we achieved a higher gross profit margin as compared to the gross profit margin for the same period in 2018. The increase in our gross profit margin was primarily due to higher profitability of Guangzhou Skyfame Byland and Skyfame Nanning ASEAN Maker Town. Our cash and cash equivalents decreased from December 31, 2018 to June 30, 2019, primarily due to the repayment of certain loans. Corresponding with the repayment of the loans, our bank and other borrowings decreased as of June 30, 2019 as compared to our bank and other borrowings as of December 31, 2018.

The 2019 Preliminary Interim Financial Information are not included in and do not form a part of this supplemental offering memorandum. The 2019 Preliminary Interim Financial Information have not been audited or reviewed by our independent accountants or any other independent accountants and may be subject to adjustments if audited or reviewed. The 2019 Preliminary Interim Financial Information may not be indicative of our future results of operations and performance. Consequently, potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. See “Risk Factor – Our Preliminary Interim Financial Information as of and for the six months ended June 30, 2019 has not been audited or reviewed by our auditor and are not contained in and do not form part of this supplemental offering memorandum” in this supplemental offering memorandum.

### **PROPERTY PORTFOLIO AS OF JUNE 30, 2019**

As of June 30, 2019, we had land reserves in an aggregate GFA of 25.9 million sq.m. located in Guangzhou, Shenzhen and Zhongshan in the Greater Bay Area, Nanning and Guilin in southern China, Xuzhou in the Huaihai economic zone, and Chongqing and Kunming in southwest China.

### **ISSUANCE OF THE ORIGINAL NOTES**

On July 8, 2019, we issued 13.0% senior notes due 2022 in the aggregate principal amount of US\$105,000,000 (the “Original Notes”).

### **REDEMPTION OF THE 2019 BONDS**

On July 24, 2019, we fully redeemed the outstanding 2019 Bonds.

### **DECLARATION AND PAYMENT OF DIVIDEND**

On May 31, 2019, we held the annual general meeting and passed the resolution to declare a final dividend of HK\$0.023 per ordinary share for the year ended December 31, 2018. The declared dividend was paid on June 28, 2019.



## SUMMARY OF THE OFFERING

*Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes” in the accompanying Original Offering Memorandum.*

Issuer.....	Skyfame Realty (Holdings) Limited
New Notes Offered.....	US\$100,000,000 aggregate principal amount of 13.0% Senior Notes due 2022 (the “New Notes”) to be consolidated and form a single class with the US\$105,000,000 in aggregate principal amount of 13.0% Senior Notes due 2022 (the “Original Notes” and, together with the New Notes, the “Notes”). The terms for the New Notes are the same as those for the Original Notes in all respects except for the issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance.
Issue Price.....	100.0% of the principal amount of the New Notes plus accrued interest from (and including) July 8, 2019 to (and excluding) September 9, 2019.
Interest Payment Dates.....	January 8 and July 8 of each year, commencing January 8, 2020.
Use of Proceeds.....	We intend to use the gross proceeds for refinancing certain of our existing offshore indebtedness and other general corporate purposes.
Form, Denomination and Registration.....	The New 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 and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream.
Delivery of the New Notes.....	The Company expects to make delivery of the New Notes, against payment in same-day funds on or about September 9, 2019, which the Company expects will be the fifth business day following the date of this supplemental offering memorandum referred to as “T+5.” You should note that initial trading of the New Notes may be affected by the “T+5” settlement. See “Plan of Distribution” of this supplemental offering memorandum.
Listing and Trading .....	The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

Securities Codes .....	<u>ISIN</u>	<u>Common Code</u>
	XS2022224047	202222404

For all other terms, please refer to the section entitled “The Offering” in the Original Offering Memorandum.

## **RISK FACTOR**

### **OUR PRELIMINARY INTERIM FINANCIAL INFORMATION AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2019 HAS NOT BEEN AUDITED OR REVIEWED BY OUR AUDITOR AND ARE NOT CONTAINED IN AND DO NOT FORM PART OF THIS SUPPLEMENTAL OFFERING MEMORANDUM.**

On August 20, 2019, we released the 2019 interim results announcement in accordance with the rules of the Hong Kong Stock Exchange as applicable to us, which include the preliminary unaudited and unreviewed consolidated interim financial information as of and for the six months ended June 30, 2019 (the “2019 Preliminary Interim Financial Information”). The 2019 Preliminary Interim Financial Information have not been subject to an audit or review and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Such financial information, similar to any previously published unaudited and unreviewed financial information, could be adjusted if audited or reviewed. In addition, you should note that the 2019 Preliminary Interim Financial Information is preliminary in nature, does not include statements of changes in equity or statements of cash flow, and includes only some condensed notes. The unaudited and unreviewed consolidated financial statements of our Company as of and for the six months ended June 30, 2019 will be included in our Company’s 2019 interim report, currently expected to be published in September 2019 in line with the relevant requirements of the Hong Kong Stock Exchange. Accordingly, other than the discussion on the 2019 Preliminary Interim Financial Information (see “Recent Developments – Unaudited and Unreviewed Preliminary Financials as of and for the Six Months Ended June 30, 2019”), the 2019 Preliminary Interim Financial Information are not part of this supplemental offering memorandum and should not be used for comparison with any financial information disclosed herein. Furthermore, the 2019 Preliminary Interim Financial Information should not be taken as an indication of the expected financial condition, results of operations and results of our Group for the full year ending December 31, 2019. Potential investors are advised to exercise caution when using such data to evaluate our financial condition and results of operations, and should not place undue reliance upon such data.

## **USE OF PROCEEDS**

The gross proceeds from this issuance of the New Notes, before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this issuance and excluding accrued interest from (and including) July 8, 2019 to (but excluding) September 9, 2019, will be approximately US\$100.0 million, which we plan to use for refinancing certain of our existing offshore indebtedness and other general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the Original Notes and the New Notes without deducting the underwriting fees, commissions and other estimated expenses payable by us in connection with this offering and excluding accrued interest from (and including) July 8, 2019 to (but excluding) September 9, 2019. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this supplemental offering memorandum and the Original Offering Memorandum.

	As of December 31, 2018			
	Actual		As adjusted	
	RMB	US\$	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands)			
<b>Cash and cash equivalents<sup>(1)</sup></b> .....	2,455,473	357,133	3,864,951	562,133
<b>Short-term borrowings<sup>(2)</sup></b>				
Bank and other borrowings				
– due within one year <sup>(3)</sup> .....	2,817,188	409,743	2,817,188	409,743
Derivative financial liabilities .....	2,138	311	2,138	311
<b>Total short-term borrowings</b> .....	2,819,326	410,054	2,819,326	410,054
<b>Long-term borrowings<sup>(2)</sup></b>				
Bank and other borrowings				
– due after one year .....	3,534,510	514,073	3,534,510	514,073
Derivative financial liabilities .....	8,757	1,274	8,757	1,274
Original Notes .....	–	–	721,928	105,000
New Notes to be issued .....	–	–	687,550	100,000
<b>Total long-term borrowings</b> .....	3,543,267	515,347	4,952,745	720,347
<b>Total equity</b> .....	3,303,559	480,483	3,303,559	480,483
<b>Total capitalization<sup>(4)</sup></b> .....	6,846,826	995,830	8,256,304	1,200,830

*Notes:*

- (1) Cash and cash equivalents include pledged deposits of approximately RMB45.4 million (US\$6.6 million) as of December 31, 2018.
- (2) Subsequent to December 31, 2018, we have, in the ordinary course of business, entered into additional financing arrangements or placing agreements to finance our property developments, repay existing indebtedness and for general corporate purposes. These additional borrowings are not reflected in the table above. See “Description of Other Material Indebtedness.”
- (3) On July 24, 2019, we fully redeemed the outstanding 2019 Bonds.
- (4) Total capitalization represents total long-term borrowings plus total equity.

In the future, we may from time to time incur substantial additional indebtedness (including bank borrowings and/or onshore or offshore bond offerings) and contingent liabilities. Except as otherwise disclosed in this supplemental offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2018.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this supplemental offering memorandum between the Company and China CITIC Bank International Limited, Dongxing Securities (Hong Kong) Company Limited, Kaiser Securities Limited, Future Land Resources Securities Limited and Kaisa Financial Group Company Limited as the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally and not jointly agreed to purchase the principal amount of the New Notes set forth opposite their respective names below.

<b>Initial Purchasers</b>	<b>Principal Amount of the New Notes</b>
China CITIC Bank International Limited.....	US\$ 20,000,000
Dongxing Securities (Hong Kong) Company Limited.....	US\$ 20,000,000
Kaiser Securities Limited.....	US\$ 20,000,000
Future Land Resources Securities Limited.....	US\$ 20,000,000
Kaisa Financial Group Company Limited.....	US\$ 20,000,000
<b>Total</b> .....	<b>US\$100,000,000</b>

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the New Notes are subject to approval of legal matters by counsel and to other conditions. The purchase agreement may be terminated by the Initial Purchasers in certain circumstances prior to the delivery and payment of the New Notes. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers propose to resell the New Notes at the offering price set forth on the cover page of this supplemental offering memorandum only outside the United States in offshore transactions in reliance of Regulation S under the Securities Act. The price at which the New Notes are offered may be changed at any time without notice. The Company will pay the Initial Purchasers customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with the offering.

The Company has agreed with the Initial Purchasers that it will pay a commission to certain private banks in connection with the distribution of the New Notes to their clients. This commission will be based on the principal amount of the New Notes so distributed, and may be deducted from the purchase price for the New Notes payable by such private banks upon settlement.

The New Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions” in this supplemental offering memorandum.

We have agreed that, for a period of 20 days from the date of the purchase agreement, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge, otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any of its subsidiaries, directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by the Company (other than the New Notes and any debt securities offered primarily in the PRC).

The New Notes will constitute a new class of securities with no established trading market.

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. However, we cannot assure you that we will ultimately obtain such listing or that we will be able to maintain such listing or that the prices at which the New Notes will sell in the market after this offering will not be lower than

the initial offering price. Accordingly, we cannot assure you that a liquid trading market will develop for the New Notes, that you will be able to sell your New Notes at a particular time or that the prices that you receive when you sell will be favorable. The Initial Purchasers have advised us that it currently intends to make a market in the New Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the New Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the New Notes.

We expect to deliver the New Notes against payment for the New Notes on or about the date specified in the last paragraph of the cover page of this supplemental offering memorandum, which will be the fifth business day following the date of the pricing of the New Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days, purchasers who wish to trade the New Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the New Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the New Notes who wish to trade the New Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the New Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the New Notes, the Initial Purchasers and/or their respective affiliates may act as an investor for its own account and may take up New Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any of our other securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the New Notes. Accordingly, references herein to the New Notes being offered should be read as including any offering of the New Notes to the Initial Purchasers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

## **SELLING RESTRICTIONS**

### **General**

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the New Notes, or the possession, circulation or distribution of this supplemental offering memorandum or any other material relating to the New Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the New Notes may not be offered or sold, directly or indirectly, and neither this supplemental offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### **United States**

The New Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions” in this supplemental offering memorandum.

## **European Economic Area**

Each of the Initial Purchasers represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Insurance Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by PRIIPs Regulation for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the New Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the New Notes in, from or otherwise involving the United Kingdom.

## **Hong Kong**

The New Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the New Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the New Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

## **Japan**

The New Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the New Notes. Accordingly, the New Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.



## **Singapore**

This supplemental offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this supplemental offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (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 of Singapore.

Notification under Section 309B(1)(c) of the SFA – The Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **PRC**

Each of the Initial Purchasers has represented, warranted and undertaken that the New Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, and the New Notes may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC, except as permitted by the applicable laws and regulations of the PRC.

## Italy

The offering of the New Notes has not been registered pursuant to Italian securities legislation and, accordingly, no New Notes may be offered, sold or delivered, nor may copies of this supplemental offering memorandum or of any other document relating to the New Notes be distributed in Italy, except:

- (i) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “**Financial Services Act**”) and as defined in Article 34-ter, first paragraph, letter b) of *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) Regulation No. 11971 of May 14, 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the New Notes or distribution of copies of this supplemental offering memorandum or any other document relating to the New Notes in Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Legislative Decree No. 385 (the “**Banking Act**”), the Financial Services Act of September 1, 1933, as amended, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and any other applicable law and regulations; and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other Italian authority.

## Bermuda

No offer or invitation may be made to the public in Bermuda to subscribe for the New Notes. The Initial Purchasers represent, warrant and agree that they have not offered or sold, and will not offer or sell, any New Notes to the public in Bermuda and will procure that any purchaser of the New Notes from them will comply with such prescription.

## British Virgin Islands

No offer or invitation may be made to the public in the British Virgin Islands to subscribe for any of the New Notes. The New Notes have not been and will not be offered or sold in the British Virgin Islands.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the New Notes.

The New Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to another exemption from the registration requirements of the Securities Act. Accordingly, the New Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. As used herein, the term “United States” has the meaning given to it in Regulation S.

By its purchase of the New Notes, each purchaser will be deemed to have:

1. represented that it is purchasing the New Notes in an offshore transaction in accordance with Regulation S;
2. represented that it is purchasing the New Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is outside the United States;
3. acknowledged that the New Notes have not been and will not be registered under the Securities Act and that the New Notes may not be offered or sold within the United States except pursuant to registration under the Securities Act, or in transactions exempted from, or not subject to, the registration requirements of the Securities Act;
4. agreed that it will inform each person to whom it transfers the New Notes of any restrictions on the transfer of such New Notes;
5. acknowledged that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the New Notes, other than the information contained in this supplemental offering memorandum. You represented that you are relying only on this supplemental offering memorandum in making your investment decision with respect to the New Notes. You agreed that you have had access to such financial and other information concerning us and the New Notes as you have deemed necessary in connection with your decision to purchase the New Notes including an opportunity to ask questions of and request information from us;
6. represented that you are purchasing the New Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the New Notes in violation of the Securities Act;
7. acknowledged that the New Notes will be represented by the Global Note; and
8. acknowledged that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

You also acknowledge that the Company, the Transfer Agent, the Registrar and the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. You agree that if any of the acknowledgements, representations or agreements you are deemed to have made by your purchase of the New Notes is no longer accurate, you will promptly notify the Company, the Transfer Agent, the Registrar and the Initial Purchasers. If you are acquiring any New Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

## **LEGAL MATTERS**

Certain legal matters with respect to the New Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law, Conyers Dill & Pearman as to matters of Bermuda law and British Virgin Islands law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Shearman & Sterling as to matters of United States federal and New York law and Deheng Law Office as to matters of PRC law.

## GENERAL INFORMATION

### CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda and Hong Kong in connection with the issue and performance of the New Notes. The issue of the New Notes have been authorized by a resolution of our Board of Directors dated June 27, 2019.

### LITIGATION

Except as disclosed in this supplemental 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 New Notes.

### NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2018 that is material in the context of the issue of the New Notes.

### DOCUMENTS AVAILABLE

For so long as any of the New Notes are outstanding, copies of the Indenture governing the New Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the corporate trust office of the Trustee.

For so long as any of the New Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Company.

### CLEARING SYSTEM AND SETTLEMENT

The New Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the New Notes is set forth below:

ISIN	Common Code
XS2022224047	202222404

Only notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

### LISTING OF THE NEW NOTES

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the New Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, or the New Notes. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

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

## OUR REGISTERED AND PRINCIPAL OFFICES

*Registered office*  
Clarendon House  
2 Church Street  
Hamilton, HM 11  
Bermuda

*Principal place of business  
in Hong Kong*  
Unit 1401, 14th Floor  
Capital Centre  
151 Gloucester Road  
Wanchai  
Hong Kong

*Principal place of  
business in the PRC*  
32nd to 33rd Floors of  
HNA Tower  
8 Linhe Zhong Road  
Tianhe District  
Guangzhou  
Guangdong Province  
The PRC

## TRUSTEE AND COLLATERAL AGENT

**Citicorp International Limited**  
20/F, Citi Tower, One Bay East  
83 Hoi Bun Road, Kwun Tong  
Kowloon, Hong Kong

## PAYING AGENT, REGISTRAR AND TRANSFER AGENT

**Citibank, N.A., London Branch**  
c/o Citibank, N.A., Dublin Branch  
One North Wall Quay  
Dublin 1, Ireland

## OUR LEGAL ADVISERS

*as to PRC law*  
**Jingtian & Gongcheng**  
34/F, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing, China

*as to the United States law  
and Hong Kong law*  
**Sidley Austin**  
Level 39  
Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

*as to Bermuda law  
and British Virgin Islands Law*  
**Conyers Dill & Pearman**  
29th Floor,  
One Exchange Square  
8 Connaught Place  
Central, Hong Kong

## LEGAL ADVISERS TO THE INITIAL PURCHASERS

*as to United States law*  
**Shearman & Sterling**  
12/F, Gloucester Tower, The Landmark  
15 Queen's Road  
Central, Hong Kong

*as to PRC law*  
**Deheng Law Office**  
Tower B, Focus Building  
19 Jinrong Street  
Xicheng District, Beijing

## AUDITOR

**BDO Limited Certified Public Accountants**  
25th Floor, Wing On Centre  
111 Connaught Road  
Central, Hong Kong

## SINGAPORE LISTING AGENT

**Shook Lin & Bok LLP**  
1 Robinson Road  
#18-00 AIA Tower  
Singapore 048542





天譽置業（控股）有限公司  
**SKYFAME REALTY (HOLDINGS) LIMITED**

(incorporated in Bermuda with limited liability)  
 (Stock Code: 00059)

**US\$105,000,000**

**13.0% SENIOR NOTES DUE 2022**

**Issue Price: 100.0%**

Skyfame Realty (Holdings) Limited (the “Company”) is issuing 13.0% senior notes due 2022 (the “Notes”). The Notes will bear interest from July 8, 2019 at the rate of 13.0% per annum, payable semi-annually in arrears on January 8 and July 8 of each year, commencing January 8, 2020. The Notes will mature on July 8, 2022.

The Notes will be (1) general obligations of the Company, (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (4) effectively subordinated to secured obligations (if any) of the Company to the extent of the value of the assets serving as security therefor (other than the Collateral) and (5) effectively subordinated to all existing and future obligations of the Subsidiaries. The Notes will be secured by the capital stock of Winprofit Investments Limited. In addition, applicable law may limit the enforceability of the pledge of any collateral. See the section headed “Risk Factors – Risks Relating to the Collateral.”

At any time and from time to time prior to July 8, 2022, we may redeem up to 35% of the aggregate principal amount of the Notes with the net8 cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.0% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions. In addition, we may at our option redeem the Notes, in whole but not in part, at any time prior to July 8, 2022, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as set forth in this offering memorandum, and accrued and unpaid interest, if any, to (but not including) the redemption date. We shall, at the option of any holder of the Notes, repurchase all of the Notes held by such holder on July 8, 2021 at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) July 8, 2021. Upon the occurrence of a Change of Control Triggering Event (as defined in the section entitled “Description of the Notes”), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. Subject to certain exceptions, we 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 but excluding the redemption date, if the Company would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws.

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 109.

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 11.**

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company or the Notes.

The Notes are expected to be assigned a rating of B- by Fitch Ratings Ltd (“Fitch”). The rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States 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 compliance with Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on the resale or transfer of the Notes, see “Transfer Restrictions.”

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated February 3, 2019 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 July 8, 2019 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

**China Investment Securities International**

**Dongxing Securities (Hong Kong)  
 Company Limited**

**Everbright Sun Hung Kai**

**Joint Bookrunners and Joint Lead Managers**

**Future Land Resources**

**Wilson**

**CM Financial**

**Morton Securities Limited**

The date of this offering memorandum is June 28, 2019

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This offering memorandum does not purport to nor does it contain all information that a prospective investor may require in investigating us, prior to making an investment in relation to the Notes. This offering memorandum is not, and does not purport to be, investment advice. A prospective investor should make an investment in the Notes only after it has determined that such investment is suitable for its investment objectives. Determining whether an investment in the Notes is suitable is a prospective investor's responsibility. Neither this offering memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Notes (or any part thereof) is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us that any recipient of this offering memorandum or any such other document or information (or any part thereof) should subscribe for or purchase or sell any of the Notes. Each person receiving this offering memorandum acknowledges that such person has not relied on us or our subsidiaries and associated companies (if any) or any person affiliated with each of them in connection with its investigation of the accuracy or completeness of the information contained herein or of any additional information considered by it to be necessary in connection with its investment decision. Any recipient of this offering memorandum contemplating subscribing for or purchasing any of the Notes should determine for itself the relevance of the information contained in this offering memorandum and any such other document or information (or such part thereof) and its investment should be, and shall be deemed to be, based solely upon its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of us and our subsidiaries and associated companies (if any), the structures and terms of the Notes and any other factors relevant to its decision, including the merits and risks involved. A prospective investor should consult with its legal, tax and financial advisers prior to deciding to make an investment in the Notes.

**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 Directive 2003/71/EC (as amended or superseded) as implemented in the Member States of the European Economic Area (the “EEA”).**

**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, as amended or superseded (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.**

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

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

**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 headed “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by China Investment Securities International Brokerage Limited, Dongxing Securities (Hong Kong) Company Limited, China Everbright Securities (HK) Limited, Future Land Resources Securities Limited, Wilson Securities Limited, CM Securities (Hongkong) Company Limited and Morton Securities Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), the Agents (as defined under Description of the Notes) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

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, Trustee or any person affiliated with the Initial Purchaser or the Trustee 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 (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 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 or the Trustee.

**THE NOTES 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 HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE ISSUANCE OF THE NOTES 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 in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the issuance of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us to inform themselves about and to observe any such restrictions. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws or exemption therefrom. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see “Transfer Restrictions” and “Plan of Distribution” below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the issuance, including the merits and risks involved. None of the Company, the Trustee, the Agents or our or their respective directors, officers or advisors is making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). 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 under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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 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 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 of Singapore.

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

We reserve the right to withdraw the issuance 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 AND 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 the “Company,” the “Group,” “we,” “us,” “our” and words of similar import, we are referring to Skyfame Realty (Holdings) Limited itself or to Skyfame Realty (Holdings) Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or our directors and advisors, and neither we nor our directors, officers, employees and advisors makes any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

The information and statistics set forth in this offering memorandum relating to the PRC and the retail industry in the PRC were taken or derived from various government and private publications. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

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 RMB6.8755 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018, and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK\$7.8305 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. 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 and 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.”

In this offering memorandum, 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.”); references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”), references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China; references to “Macau” are to the Macau Special Administrative Region of the PRC; references to the “PRC government” are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them; and references to the “PRC” and “China” are to the People’s Republic of China and, for the purposes of this offering memorandum, do not include Hong Kong, Macau or Taiwan.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKICPA”) which differ in certain respects from generally accepted accounting principles in certain other countries.

Unless the context otherwise requires, references to “2016”, “2017” and “2018” in this offering memorandum means our financial years ended December 31, 2016, 2017 and 2018, respectively.

“2019 Bonds” means the 10.0% bonds due 2019 issued by the Company on August 30, 2018.

“Board of Directors” or “Board” means the board of Directors of the Company.

“CAGR” means compound annual growth rate.

“Controlling shareholder” has the meaning ascribed to it in the Listing Rules (as defined above).

“CRIC Research Center” means the research center under China Real Estate Information Circle system of E-House (China) Holdings Limited.

“Director(s)” mean the director(s) of the Company.

“EIT Law” means the Enterprise Income Tax Law of the PRC, which came into effect on January 1, 2008.

“Greater Bay Area” refers to the a city cluster consisting nine cities in Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing, as well as two special administrative regions, Hong Kong and Macau.

“Huaihai Economic Zone” refers to the area covering southern Shandong Province, northern Jiangsu Province, northern Anhui Province and part of Henan Province.

“January 2021 Bonds” means the 6.0% bonds due 2021 issued by the Company on January 10, 2018.

“July 2019 Bonds” means the 10.0% bonds due 2019 issued by the Company on July 5, 2016.

“MTB Programmes” mean Apastron MTB Programme and Anglo MTB Programme. See “Description of Other Material Indebtedness – Offshore Financing Agreements” for more details.

“November 2019 Bonds” means the 5.0% bonds due 2019 issued by the Company on November 18, 2016.

“PBOC” means the People’s Bank of China (中國人民銀行), the central bank of the PRC responsible for implementing monetary policies and regulating financial institutions.

“SAFE” means the PRC State Administration of Foreign Exchange (中國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration.

“SFO” means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

“Share” means, unless the context indicates otherwise, an ordinary share, with a nominal value of one-third Hong Kong cent upon completion of the Share Subdivision on 22 October 2018, in our share capital.

“sq.m.” means square meters(s).

“Southwestern Region” refers to the area covering Sichuan Province, Guizhou Province, Yunnan Province, Chongqing Municipality and Guangxi Zhuang Autonomous Region.

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 includes “forward-looking statements” that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business, financing and operating strategies;
- our capital expenditure and expansion 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;
- any prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- the regulatory environment of our industry in general;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the markets where we operate;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in currency exchange rates;
- effect of competition on the demand for and prices of the products we offer and our ability to compete; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management’s view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.



## SUMMARY

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

### OVERVIEW

We are a real estate developer focusing on high-quality commercial and residential properties and specializing in the development of youth community projects with young families as target customers in China. We are headquartered in Guangzhou, Guangdong province and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Huaihai Economic Zone of China, such as Shenzhen, Guangzhou, Zhongshan, Nanning, Chongqing and Xuzhou. We have four business segments, namely, property development, property investment, property management and commercial operations in youth community development projects. Among these segments, property development has contributed a substantial portion of our revenue for the past three years. Since 2016, we have been primarily focusing on the development of properties targeting young families. These properties are equipped with smart living and recreational facilities and are built in relatively smaller unit size, and thus, in affordable price. In 2018, we were ranked 167th and 182nd nation-wide among the “2018 China Real Estate Enterprises Top 200” in terms of contracted sales GFA and contracted sales volume, respectively, according to CRIC Research Center. In 2019, we were ranked 163rd in the list of “2019 China Real Estate Development Enterprises Top 500” released by the China Real Estate Association and the China Real Estate Evaluation Center of Shanghai Yiju Real Estate Research Institute.

As of December 31, 2018, we had a total of 15 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in nine cities with a total site area of approximately 1,615,332 sq.m. and an aggregate actual/planned GFA of approximately 7,183,000 sq.m. As of the same date, we had a land bank of approximately 3,417,000 sq.m. of GFA, consisting of approximately 370,000 sq.m. of GFA available for sale of completed properties, approximately 2,783,000 sq.m. of planned GFA under development and 264,000 sq.m. of estimated GFA held for future development. As of December 31, 2018, we have delivered completed saleable GFA of approximately 2,069,000 sq.m. to our customers.

We have received numerous awards and recognitions for our property projects and business operations. In 2019, we received the award of “2019 Quality China Real Estate Developer” from Organizing Committee of the China Real Estate Awards. In 2018, we received the awards of “2018 Quality China Real Estate Developer” from Organizing Committee of the China Real Estate Enterprise Awards, the “2018 Annual Award of the Listed Companies” from Hong Kong Stock Analysts Association, the “2018 China Real Estate Comprehensive Development Professional Leading Brand Value TOP 10 – City Youth Innovation Service” from China Real Estate Top 10 Research Group, the “2018 Chinese Real Estate Industry Outstanding Enterprise” from China Real Estate Industry Management Association, and the “2018 Xuzhou Most Influential Brand Real Estate Enterprises Award” from Xuzhou Media Group. Our Nanning Skyfame City project was awarded the “2018 Commercial Properties at Highest Investment Value” by Guangxi Daily Media Group, Southern Morning Post and Home Weekly. Our Guangzhou Skyfame Byland project was awarded the “2018 China Real Estate Champion List – Top City Central Benchmark Luxurious Residences” by NetEase News Real Estate, the Guangdong Real Estate Association and the Evaluation Committee of China Real Estate Champion list. Our Xuzhou Skyfame Time City project was awarded “2018 Xuzhou Real Estate Annual Festival – Honorary Enterprises Award” and “2018 Xuzhou Real Estate Annual Festival – the Most Influential Brand” by Xuzhou Broadcast and Television Media Group. In addition, our Community of Mr. Fish of Xuzhou Skyfame Time City was awarded the “2018 Top 10 Real Estate Project Award” in Xuzhou by Tencent Xuzhou Station.

In 2016, 2017 and 2018, we recorded revenue of RMB1,508.0 million, RMB4,080.5 million and RMB6,191.8 million (US\$900.6 million), respectively, representing a CAGR of 102.6%. We recorded a net profit attributable to owners of RMB92.9 million, RMB550.5 million and RMB751.3 million (US\$109.3 million), in 2016, 2017 and 2018, respectively, representing a CAGR of 184.4%.

## **COMPETITIVE STRENGTHS**

We believe the following strengths differentiate us from other industry participants and enable us to compete effectively in our industry:

- we have property development portfolio strategically located across the regions and cities in China with high growth potentials;
- we specialize in the development of property projects in sizable scale catering to young population;
- we have recognized brand name with quality products; and
- we have an experienced management team and strong risk management capabilities.

## **BUSINESS STRATEGIES**

We plan to expand our business operations by focusing on the development of youth community projects that serve the needs of young population. We intend to implement the following business strategies:

- continue to expand in the fast-growing economic regions or cities in China;
- continue our development of youth community projects; and
- continue to promote our brand names.

## **RECENT DEVELOPMENTS**

### **Resignation of Non-executive Director**

Effective from February 18, 2019, Ms. Liu Juan resigned as the non-executive director of the Company.

### **Partial Redemption of the 2019 Bonds**

On February 19, 2019, we partially redeemed the 2019 Bonds in the amount of US\$12.8 million. Upon the completion of the partial redemption, the principal amount of US\$17.2 million of the 2019 Bonds remains outstanding.

## **GENERAL INFORMATION**

Our Company was incorporated in Bermuda on October 19, 1993 as an exempted company with limited liability under the laws of Bermuda. Our shares have been listed on the SEHK since November 1993, under the stock code 00059. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Our head office and principal place of business in the PRC is 32nd to 33rd Floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC. Our principal place of business in Hong Kong is at Unit 1401, 14th floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong. Our website is [www.tianyudc.com](http://www.tianyudc.com). Information contained on our website does not constitute a part of this offering memorandum.

## THE OFFERING

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

Issuer.....	Skyfame Realty (Holdings) Limited
Notes Offered.....	US\$105,000,000 aggregate principal amount of 13.0% senior notes due 2022 (the “Notes”).
Issue Price.....	100.0% of the principal amount of the Notes.
Maturity Date.....	July 8, 2022.
Interest.....	The Notes will bear interest from and including July 8, 2019 at the rate of 13.0% per annum, payable semiannually in arrears.
Interest Payment Dates.....	January 8 and July 8 of each year, commencing January 8, 2020.
Ranking of the Notes.....	The Notes are: <ul style="list-style-type: none"><li>• general obligations of the Company;</li><li>• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;</li><li>• at least <i>pari passu</i> in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);</li><li>• effectively subordinated to other secured obligations (if any) of the Company to the extent of the value of the assets serving as security therefor (other than the Collateral); and</li><li>• effectively subordinated to all existing and future obligations of the Subsidiaries.</li></ul>

After the pledge of the Collateral by the Company and subject to the limitations described in “Risk Factors — Risks Relating to the Collateral,” the Notes will:

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) shared on a *pari passu* basis pursuant to the Intercreditor Agreement with holders of the Existing *Pari Passu* Secured Indebtedness and any holders of Permitted *Pari Passu* Secured Indebtedness; and

- rank effectively senior in right of payment to unsecured obligations of the Company with respect to 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).

Security to be Granted ..... The Company has agreed, for the benefit of the holders of the Notes, to pledge the Collateral (subject to Permitted Liens and the Intercreditor Agreement) on the Original Issue Date in order to secure the obligations of the Company under the Notes and indenture governing the Notes (the “Indenture”).

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

Intercreditor Agreement..... On the Original Issue Date, the Company, the Trustee, Citicorp International Limited, as trustee (the “2019 Bonds Trustee”) with respect to the 2019 Bonds and Citicorp International Limited, as collateral agent (the “Collateral Agent”), will enter into an intercreditor agreement dated the Original Issue Date (such intercreditor agreement, as so supplemented and amended from time to time, the “Intercreditor Agreement”). Pursuant to the Intercreditor Agreement, the 2019 Bonds Trustee and the Trustee will agree to (1) share the Collateral on an equal and ratable basis, (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral, and (3) the conditions under which their rights with respect to such Collateral and the Indebtedness secured thereby will be enforced. See “Description of the Notes — Security — Intercreditor Agreement.”

Use of Proceeds..... We intend to use the gross proceeds for refinancing certain of our existing offshore indebtedness and other general corporate purposes.

Optional Redemption..... At any time prior to July 8, 2022, 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 July 8, 2022, the Company may redeem up to 35% of the aggregate principal outstanding 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 113.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remain outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

<p>Repurchase of Notes Upon a Change of Control Triggering Event .....</p>	<p>Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101.0% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date. See “Description of the Notes – Repurchase of Notes Upon a Change of Control Triggering Event.”</p>
<p>Additional Amounts.....</p>	<p>All payments of principal of, and premium (if any) and interest on the Notes 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 or a Surviving Person (as defined under “Description of the Notes – Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, the PRC (each, as applicable, a “Relevant Jurisdiction”), or any jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. Subject to certain exceptions, in the event that any such withholding or deduction is so required, the Company or a Surviving Person 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.</p>
<p>Redemption for Taxation Reasons ....</p>	<p>Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (which notice shall be irrevocable) and the Trustee, at a redemption price equal to 100.0% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company or a Surviving Person would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes – Redemption for Taxation Reasons.”</p>
<p>Repurchase at the Option of holders of the Notes .....</p>	<p>The Company shall, at the option of any Holder, repurchase all of the Notes held by such Holder on July 8, 2021 at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the repurchase date.</p>
<p>Covenants.....</p>	<p>The Indenture will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> <li>• incur additional indebtedness and issue disqualified or preferred stock;</li> <li>• make investments or other specified restricted payments;</li> </ul>

- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with 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 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 denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depositary and registered in the name of the common depositary 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, against payment in same-day funds on or about July 8, 2019, which the Company expects will be the fifth business day following the date of this offering memorandum referred to as "T+5." You should note that initial trading of the Notes may be affected by the "T+5" settlement. See "Plan of Distribution."
Trustee and Collateral Agent.....	Citicorp International Limited.
Paying Agent, Transfer Agent and Registrar .....	Citibank, N.A., London Branch.

**Listing and Trading** ..... Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

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

<b>Securities Codes</b> .....	<b>ISIN</b>	<b>Common Code</b>
	XS2022224047	202222404

**Governing Law** ..... The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. The share charge will be governed under the laws of the British Virgin Islands, the jurisdiction of incorporation of Winprofit Investments Limited, the entity whose Capital Stock is charged.

**Risk Factors** ..... For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of profit or loss data for 2016, 2017 and 2018 and the summary consolidated statement of financial position data as of December 31, 2016, 2017 and 2018 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for the years ended December 31, 2017 and 2018, as audited by BDO Limited Certified Public Accountants, the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements for the years of 2016, 2017 and 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements, included elsewhere in this offering memorandum.

### SUMMARY CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(unaudited)			
	(in thousands, except for percentages)			
Revenue .....	1,507,971	4,080,514	6,191,763	900,555
Cost of sales and services .....	(1,196,640)	(3,197,387)	(4,305,878)	(626,264)
Gross profit .....	311,331	883,127	1,885,885	274,291
Other income and gains, net .....	4,048	34,100	7,662	1,114
Sales and marketing expenses .....	(106,971)	(152,913)	(156,851)	(22,813)
Administrative and other expenses .....	(163,597)	(219,828)	(305,691)	(44,461)
Unrealised exchange (loss)/gain .....	(97,231)	111,909	(74,171)	(10,788)
Impairment loss on trade and other receivables .....	–	–	(5,721)	(832)
Impairment loss on loan to a non-controlling shareholder of a subsidiary .....	–	–	(524)	(76)
Fair value changes in investment properties .....	10,051	35,701	66,405	9,658
Gain on properties valuation .....	–	353,351	203,297	29,568
Impairment loss on goodwill .....	–	–	(13,554)	(1,971)
Gain from bargain purchase .....	–	–	81,214	11,812
Share of loss of joint venture, net of tax ....	–	–	(8,101)	(1,178)
Fair value changes in derivative financial asset/liabilities .....	11,121	13,080	(1,476)	(215)
Gain on early repayment of unsecured bonds .....	–	–	1,979	288
Loss on early repayment of term loans .....	–	(23,418)	–	–
Gain on disposal of subsidiaries, net of tax .....	97,285	–	–	–
Finance costs .....	(3,051)	(33,088)	(53,920)	(7,842)
Finance income .....	32,771	36,483	17,669	2,570
<b>Profit before income tax</b> .....	<b>95,757</b>	<b>1,038,504</b>	<b>1,644,102</b>	<b>239,125</b>
Income tax expense .....	(9,518)	(491,232)	(823,346)	(119,751)
<b>Profit for the year</b> .....	<b>86,239</b>	<b>547,272</b>	<b>820,756</b>	<b>119,374</b>
<b>OTHER FINANCIAL DATA</b>				
<b>(UNAUDITED)</b>				
EBITDA <sup>(1)</sup> .....	61,864	673,135	1,452,225	211,217
EBITDA Margin (%) <sup>(2)</sup> .....	4%	16%	24.0%	24.0%



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*Notes:*

- (1) EBITDA is not a standard measure under HKICPA. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs, depreciation and amortization and impairment loss. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash 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. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined under Description of the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
  
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As of December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (unaudited)
	(in thousands)			
<b>Non-current assets</b>				
Property, plant and equipment .....	251,390	239,497	693,859	100,918
Investment properties.....	588,370	1,094,400	2,907,157	422,828
Goodwill.....	13,554	13,554	–	–
Interest in a joint venture .....	–	–	15,899	2,312
Financial asset at fair value through profit or loss .....	–	–	10,000	1,454
Available-for-sale investment.....	10,000	10,000	–	–
Loan to a non-controlling shareholder of a subsidiary .....	–	52,900	–	–
Derivative financial assets .....	9,022	46,144	60,388	8,783
Deferred tax assets .....	57,353	18,142	25,649	3,730
	<u>929,689</u>	<u>1,474,637</u>	<u>3,712,952</u>	<u>540,025</u>
<b>Current assets</b>				
Properties held for development.....	161,160	488,072	–	–
Properties under development.....	7,971,027	3,552,378	7,554,327	1,098,731
Properties held for sale.....	177,228	3,754,243	4,144,040	602,726
Considerations receivable .....	277,401	–	–	–
Loan to a non-controlling shareholder of a subsidiary .....	52,900	–	51,847	7,541
Trade and other receivables .....	862,037	1,200,792	1,611,504	234,384
Prepayment/deposits for proposed projects for sale.....	614,093	1,385,269	994,928	144,706
Contract costs .....	–	–	80,698	11,737
Short-term investments .....	–	100,000	–	–
Prepaid income tax .....	93,368	–	–	–
Restricted and pledged deposits.....	987,290	1,313,264	676,630	98,412
Cash and cash equivalents .....	1,794,440	2,983,799	2,410,063	350,529
	<u>12,990,944</u>	<u>14,777,817</u>	<u>17,524,037</u>	<u>2,548,766</u>
<b>Current liabilities</b>				
Trade and other payables.....	1,190,525	1,374,346	2,058,288	299,366
Contract liabilities .....	–	–	8,559,878	1,244,983
Properties pre-sale deposits .....	7,290,196	7,821,274	–	–
Bank and other borrowings – current portion.....	1,067,634	1,171,198	2,817,188	409,743
Derivative financial liabilities – current portion..	11,177	–	2,138	311
Amount due to a joint venture.....	–	–	55,817	8,118
Consideration payable.....	–	–	50,000	7,272
Income tax payable.....	–	137,192	251,998	36,652
	<u>9,559,532</u>	<u>10,504,010</u>	<u>13,795,307</u>	<u>2,006,445</u>
<b>Net current assets</b> .....	<u>3,431,412</u>	<u>4,273,807</u>	<u>3,728,730</u>	<u>542,321</u>
<b>Total assets less current liabilities</b> .....	<u>4,361,101</u>	<u>5,748,444</u>	<u>7,441,682</u>	<u>1,082,346</u>
<b>Non-current liabilities</b>				
Bank and other borrowings – non-current portion.....	2,388,429	3,104,096	3,534,510	514,073
Derivative financial liabilities – non-current portion.....	2,182	12,333	8,757	1,274
Deferred tax liabilities.....	170,522	253,388	594,856	86,517
	<u>2,561,133</u>	<u>3,369,817</u>	<u>4,138,123</u>	<u>601,864</u>
<b>Net assets</b> .....	<u>1,799,968</u>	<u>2,378,627</u>	<u>3,303,559</u>	<u>480,482</u>
<b>Capital and reserves</b>				
Share capital .....	24,456	24,469	24,659	3,586
Reserves .....	1,740,653	2,301,560	2,888,766	420,153
<b>Equity attributable to owners of the Company</b> .....	<u>1,765,109</u>	<u>2,326,029</u>	<u>2,913,425</u>	<u>423,739</u>
<b>Non-controlling interests</b> .....	<u>34,859</u>	<u>52,598</u>	<u>390,134</u>	<u>56,743</u>
<b>Total equity</b> .....	<u>1,799,968</u>	<u>2,378,627</u>	<u>3,303,559</u>	<u>480,482</u>

## RISK FACTORS

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

### **RISKS RELATING TO OUR BUSINESS**

**We require substantial capital resources to acquire land and develop its projects, which may not be available on commercially reasonable terms, or at all, and are subject to market demand and policy changes**

Property development is capital intensive. The availability of adequate financing is crucial to the Group's ability to acquire land and to complete its projects. Our ability to obtain adequate financing for land acquisitions or property development on terms commercially acceptable to it depends on a number of factors, many of which are beyond its control. The PRC government has in recent years introduced numerous policy initiatives in the financial sector to further tighten the requirements for lending to property developers which, among other things:

- prohibit the PRC commercial banks from granting loans to property developers for the purpose of paying land acquisition consideration;
- restrict the PRC commercial banks from granting loans for the development of luxury residential properties;
- require property developers to fund a minimum amount of 20% (commodity residential property projects) and 30% (other projects) of the total estimated capital required for the project with internal funds; and
- prohibit property developers from using borrowings obtained from local banks to fund property developments outside that local region.

As a result, we may not be able to obtain bank loans or funding from other sources in the future on commercially acceptable terms, or at all, which could have a material adverse impact on its business, financial condition and results of operations.

**Our operations are subject to extensive government policies and regulations, particularly changes in policies related to the PRC property industry and our operating region**

Our principal businesses are real estate property development, which are subject to extensive governmental regulations and we are susceptible to policy changes in the PRC property sector. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as controls over the supply of land for property development, maximum loan-to-value levels allowed for property developers, purchase limits on number of properties, the imposition of property taxes in certain cities and controls over foreign exchange, property financing, taxation and foreign investment. The PRC government may also restrict or reduce land available for property development, raise the benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector.

Since 2010, the PRC government had implemented a series of regulations and policies on property market to curb the property prices and dampen property speculation. These national or local policies may limit our ability to obtain financing, acquire land for future developments, build properties, sell our properties at a profit, generate sufficient operating cash flows from contracted sales, impose additional requirements for pre-sales or restrict the use of funds raised by pre-sale properties only for the purposes of the respective projects. In addition, policies implemented by the PRC government on bank loans and trust financing arrangements for property development projects since January 2010 have had, and may continue to have, a dampening effect on the property markets in which we operate. In February 2013, the State Council announced a series of policies to limit property speculation. Such policies include setting pricing targets for newly developed properties, requiring provincial governments to impose purchase limits and credit restrictions, expanding the scope of experimental property taxes, increasing the supply of land and residential units and tightening market regulations. It is expected that more detailed implementation measures may be adopted by provincial governments to reflect these policies of the State Council. To support the demand of buyers of residential properties and promote sustainable development of China's real estate market, the PBOC and the China Banking Regulatory Commission ("CBRC") jointly issued the Notice of Further Improving Housing Financial Services (《關於進一步做好住房金融服務工作的通知》) in September 2014, providing that where a household owns a residential property and has paid off its existing mortgage loan and applies for a new mortgage loan to buy another residential property to improve its living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a household that owns two or more residential properties and has paid off all of its existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency and credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions as required by the relevant policies. In March 2015, the PBOC, the CBRC and the Ministry of Housing and Urban-Rural Development jointly issued the Notice of Issues concerning Individual Housing Loan Policies (《關於個人住房貸款有關問題的通知》) to lower the minimum down payment to 40% for households that own a residential property and have not paid off their existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve their living conditions, and allow the bank to decide in its own discretion the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower. In February 2016, the PBOC and the CBRC issued the Notice of Issues concerning Adjusting the Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), in cities where "housing purchase restriction" measures are not implemented, where a household which owns one housing unit but has not paid off the relevant housing loan applies again for a commercial individual housing loan to purchase an ordinary housing unit to improve living conditions, the minimum down payment ratio shall not be less than 30%. In 2016, the PRC government has adopted certain restrictive measures toward the end of 2016 to cool down the real estate industry. These measures include, among other things, higher minimum down payment requirements, restrictions on the purchase of properties and tightened loan policies.

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

## **Our results of operations grew rapidly in the past but may fluctuate in the future**

Our revenue grew at a CAGR of 102.6% from 2016 to 2018. We cannot guarantee our future growth will continue at such a rate, as our results of operations are subject to a number of key factors, including, among others, the reduced number of properties completed and delivered. While we have commenced the pre-sale of a significantly increased volume of properties in recent years, there can be no assurance that all of our projects will be profitable. In addition, there is no assurance that the properties sold will be profitable when they are delivered in the future, which in turn could have a material adverse effect on our results of operations and financial condition.

In addition, our historical financial performance is affected by various factors, many of which are beyond our control. These include, among other factors, PRC economic and political environment and the regulatory mechanism and policy for property market. These factors are very hard to predict and may not be able to be successfully managed by us should any of them occur. This could lead to a significant fluctuation in our business, financial condition and operations which in turn could have a material adverse effect upon our future profitability and the ability of the Company to repay the principal and interest of the Notes and any other sums payable thereunder. As such, our past financial results should not be unduly relied on as indicative of our future performance.

A number of factors, such as general economic conditions, our financial performance, credit availability from financial institutions and monetary policies in the PRC, may affect our ability to obtain adequate financing for our projects on favorable terms, if at all. Many of these factors are beyond our control. The PRC government has in recent years taken a number of measures in the financial sector to further tighten lending requirements for property developers to cool down excessive growth in the property sector, which, among other things:

- prohibit PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of villas;
- restrict PRC commercial banks from granting or extending revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibit PRC commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;
- prohibit PRC commercial banks from granting loans to development projects that fail to meet capital ratio requirements or lack the required government permits and certificates; and
- prohibit property developers from using borrowings obtained from any local banks to fund property developments outside that local region.

We cannot assure you that the PRC government will not introduce other measures which may limit our access to capital resources. The foregoing and other governmental actions and policy initiatives may limit our ability to use bank borrowings and other borrowings to finance our property developments and, therefore, may require us to maintain a relatively high level of internally sourced cash or obtain funding at a higher cost. As a result, our business, results of operations, and financial condition may be materially and adversely affected.

**We may be subject to inquiries, investigations or proceedings from regulatory authorities or other governmental agencies which may have a material adverse effect on our business operations, reputation or financial condition**

We may, from time to time, be subject to inquiries, investigations or proceedings from regulatory authorities or other governmental agencies, and we cannot assure you that no legal proceeding or disciplinary actions will result from such inquiry or investigation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. In the event that a legal proceeding is commenced and cannot be resolved in our favor, we may be subject to uncertainties as to the outcome of such legal proceeding. Any legal proceeding may be protracted, resulting in substantial costs and diversion of resources and management attention, and it may be difficult to evaluate its outcome. An adverse determination, fines or penalties in any proceedings against us or our directors, officers or key employees may have a material adverse effect on our business operations, reputation and financial condition. An adverse determination may also affect our listing status or impair our ability to repay existing indebtedness.

**We may be adversely affected by fluctuations in the global economy and financial markets at the macroeconomic level**

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC domestic economy. Whilst the PRC government and governments around the world had taken actions to address the financial crisis, financial institutions, companies, investors and consumers attempted to retrench in an effort to reduce exposure, save capital and weather the economic contraction, the outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the US, the unemployment rate remains high, and recovery in the housing market remains subdued. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. The full impact of the Moody's downgrade remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. If China's economic conditions worsen, or if the banking and financial systems experience difficulties from over-indebtedness, businesses in China may face a more challenging operating environment. More recently, trade tensions between the U.S. and China escalated, where both countries have increased tariff on certain products in their bilateral trade. Starting in April 2018, the United States imposed tariffs on steel and aluminum imports from China, and later on July 6, 2018, the United States imposed 25% tariffs on US\$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. On September 18, 2018, President Donald Trump imposed 10% tariffs on approximately US\$200 billion worth of Chinese goods and planned to increase further. In return, the PRC responded with tariffs on US\$60 billion of U.S. goods. In early December, China and the United States reached a 90-day truce on imposing new tariffs, with the United States agreeing to postpone the plan of increasing tariffs on products imported from the PRC until March 2019 (originally to be carried out on January 1, 2019), and China agreeing to cancel similar tariff increases on products imported from the United States in early 2019, pending the results of further negotiations. On March 5, 2019, the Office of the United States Trade Representative issued a notice in the Federal Register to suspend the scheduled tariff increase until further notice, which was a promising sign for a deal between the China and U.S. The PRC government has also promised to buy more products from the U.S. It is expected that leaders of both countries will continue to negotiate the China-U.S. trade policies. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the PRC real estate industry uncertain. Should the trade war between the United States and the PRC begin to materially impact the PRC economy, the purchasing power of our customers in the PRC would be negatively affected, which would have a material and adverse impact on our business, financial condition and results of operation.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, the general demand for real estate property in the PRC, which may adversely impact our property sales. There is no assurance that further economic slowdown will not occur in the near future, or the PRC government's economic recovery will be sustainable or successful to address the economic slowdown. If market conditions deteriorate or a market downturn occurs again and becomes more severe, longer lasting or broader than expected, we could defer our expansion plans, delay our projects under development or face weakened sales and pre-sales which in turn could cause us to face a material loss of customers and revenue and our shareholder value and overall business prospects could be materially and adversely affected. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be adversely affected.

**We may not be able to meet our project development schedules and complete our projects on time, or at all**

Development of property projects involves a complex process that lasts for a long period of time and contains many inherent risks that could prevent the projects from being completed as originally planned. Construction of a particular project may take several years before it can generate positive cash flows through pre-sales, sales and leases, and the timing and costs involved in completing a particular project could be materially and adversely affected by many factors, including, among others:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing site occupants and demolition of existing structures;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes and adverse weather conditions;
- adverse geographical conditions; and
- changes in market conditions.

Any delay in, or failure to complete, the construction of a particular project according to its planned specifications or schedule may damage our reputation as a property developer, and lead to loss of revenues, potential penalties arising from late delivery of our properties and an increase in construction costs. If we do not complete our projects on time, or at all, its business, financial condition and results of operations may be materially and adversely affected.

**We may not be able to continue to attract and maintain major tenants for our investment properties**

Our investment properties compete for tenants with a number of other similar properties in the surrounding areas on the basis of a wide range of factors, including location, design, construction quality and management. We also compete for tenants on the basis of rent levels and other lease terms. We cannot assure you that our existing and prospective tenants will not lease properties from our competitors. As a result, we may lose existing and prospective tenants to our competitors and have difficulty in renewing leases when they become due or in finding new tenants. An increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants, reduce the relative attractiveness of our properties and force us to reduce rent or incur additional costs in order to make our properties more attractive. If we are not able to consistently compete effectively for tenants with other property developers or operators, our occupancy rates may decline. This in turn could have a material adverse effect on our business, reputation, results of operations and financial position.

**The substantial amount of indebtedness of us and certain of our subsidiaries could have a material adverse effect upon our business, financial condition and operations**

We now have, and will continue to have after the issuance of the Notes, a substantial amount of indebtedness. As of December 31, 2018, our total bank and other borrowings including secured and unsecured borrowings from banks, trust company, individual investor and financial institutions and corporate bonds amounted to RMB6,362.6 million (US\$925.4 million). Our indebtedness, along with the associating short-term and long-term liquidity risk, could also have important consequences including, but not limited to, (i) increasing our vulnerability to adverse general economic and industry conditions, (ii) limiting, along with the financial and other restrictive covenants of the relevant subsidiary's indebtedness, among other things, our ability to borrow additional funds and (iii) limiting our ability to capitalize on growth and mergers and acquisitions opportunities. If any liquidity risk is realized or we are not able to appropriately service its debts, it could have a material adverse effect on our business and financial condition. Insolvency of the members of the company, or our inability to access additional debt financing as a result of the above could have a material adverse effect on our reputation, business, financial condition and operations.

**Our controlling shareholder may take actions that are not in, or may conflict with, our or our creditors' (including the holders of the notes) best interests**

Our chairman and chief executive officer, Mr. YU Pan, holds approximately 72.46% of our total issued shares as of the date of this offering memorandum. The interests of our controlling shareholder may differ from our interests or the interests of our creditors, including the holders of the Notes. Our controlling shareholder could have and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with our best interest and the best interest of our creditors, including the holders of the Notes, with respect to matters relating to our management and policies and the election of our directors and senior management. Our controlling shareholder will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses and amending our articles of association. For more information, see "Directors and Senior Management" and "Principal Shareholders."

**Our business depends substantially on the continuing efforts of the members of our senior management and qualified personnel and our ability to attract and retain them, and, if we lose the services of any of these key management and personnel and cannot replace them in a timely manner, or at all, our business may be materially and adversely affected**

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the real estate business. In particular, we rely on Mr. YU Pan, our chairman and chief executive officer, who has more than 29 years of experience in the development and management of real estate. If some of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all, and the implementation of our business strategies may be affected, which could materially and adversely affect our operations. In addition, we rely on our employees, which include qualified design, construction management, quality control, marketing, on-site supervisory and construction management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected.



**The full-fledged levy of value added tax on revenues from a comprehensive list of service sectors may subject our revenues to an average higher tax rate**

Pursuant to the Notice on Adjustment of Transfer Business Tax to Appreciation Tax (關於全面推開營業稅改徵增值稅試點的通知) issued on March 23, 2016 and implemented on May 1, 2016 (“Circular 36”) by the Ministry of Finance (“MOF”) and the PRC State Administration of Taxation (“SAT”), effective from May 1, 2016, PRC tax authorities have started imposing value added tax (“VAT”) on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with VAT for over 20 years. Since the issuance of Circular 36, the MOF and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. The VAT rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36. For example, the VAT rate for the sale of self-developed real estate projects will be increased from 5% (the applicable business tax rate prior to May 1, 2016 and the applicable VAT rate for sale of “old projects”, i.e. real property whose construction commenced prior to May 1, 2016) to 11% and then decreased to 10% on May 1, 2018 and further decreased to 9% on April 1, 2019. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from our construction and real estate can be offset from our output tax. However, new rules concerning VAT for the real estate sector may be subject to changes and will only be finalized after the interim-period under Circular 36. We are still in the process of assessing the comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations, which remains uncertain.

**The occurrence of defaults by us or any of our subsidiaries under our or their respective existing agreements may have a material adverse effect on our reputation, business, financial condition and operations**

In addition to the indebtedness issues identified above, if a member of us is unable to comply with the restrictions and covenants in its current or future debt and other agreements (including the 2019 Bonds and the Notes), there could be a default under the terms of such agreements. In the event of a default under such agreements, the holders of the debt have the option to terminate their commitments to lend to the Group as a whole or the relevant member(s) of the Company and accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements. Some of the financing arrangements entered into by members of our Group may contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of debt or result in a default under other debt agreements. If any of these events occur, there is no guarantee that our assets and cash flow would be sufficient to repay in full all of such indebtedness, or that we would be able to find alternative financing. Even if members of our Group could obtain alternative financing, there is no guarantee that such financing would be on terms that are favorable or acceptable to our Group as a whole or the relevant member(s) of our Group. This could have a material adverse effect on our reputation, business, financial condition and operations.

**Increasing competition in the PRC, particularly from developers of properties similar to ours in Guangdong province and other cities or regions in the PRC and overseas where we operate or intend to operate, may adversely affect our business and financial condition**

In recent years, many property operators and developers have entered the property development market in the PRC. Some of them may have more financial and other resources than us and may be more sophisticated than us in terms of engineering, technical, marketing and management skills. Competition among property operators and developers in the PRC may result in an increase in the land acquisition costs and raw material costs, shortages in quality construction contractors, an oversupply of properties leading to decreasing property prices, further delays in issuance of government approvals and higher costs to attract or retain experienced employees, any of which may adversely affect our business and financial condition. Moreover, residential property markets across the PRC are influenced by various other factors, including changes in government policies or regulations, economic conditions, banking practices and customer sentiments. If we fail to respond appropriately to changes in the property markets where we have operations, our business and financial condition may also be adversely affected.

With regard to our investment properties comprising mainly retail properties and car parking spaces, we face competition from the surrounding shopping centers in the areas where our retail properties are located. The new supply of retail projects in the cities and regions where our investment properties are located could adversely impact the occupancy rates and revenues of these properties, which would in turn have adverse effects on our revenue from rental income and results of operations. Factors that affect the ability of our investment properties to attract or retain tenants include the attractiveness of the building and the surrounding areas to prospective tenants and their customers and the quality of the building's existing tenants. Where properties of our competitors are developed or substantially upgraded and refurbished, the attractiveness of our investment properties may be affected, which may adversely impact the rental rates and terms and hence reduce its income.

We cannot assure you that our competitors will not engage in construction of new properties in markets in which we operate or plan to operate or engage in significant price discounting to attract customers. Furthermore, as a real estate developer, our continued success in maintaining and enhancing the recognition of our brand depends, to a large extent, on our ability to provide consistent, high-quality accommodations and services across our property portfolio and design and introduce new accommodations and services to meet customer demands. If we are unable to maintain and enhance our brand reputation, our occupancy and rent rates may decline, which would adversely affect our business and results of operations.

If we fail to respond to these changes in market conditions or customer preferences more swiftly or effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

**Our business may be adversely affected if we fail to obtain, or if there is any delay in obtaining, the relevant PRC governmental approvals for our property development projects**

We are required to obtain various permits, licenses, certificates and other approvals from the relevant PRC government authorities at various stages of project development including, but not limited to, state-owned land use rights certificates, planning permits for construction land, planning permits for construction works, permits for commencement of construction works, pre-sale permits for commodity properties and certificates or confirmations of completion and acceptance. In particular, we are required to obtain state-owned land use rights certificates before commencing any property development and such certificates would generally only be issued after certain conditions have been satisfied. Such conditions include the relevant project company having executed the state-owned land use rights granting contracts (國有土地權出讓合同) with the relevant authorities whereby the land use rights are granted to the relevant project company, provided we have paid the land premium in full.

As of December 31, 2018, we had two land plots held for future development in Guangzhou and Shenzhen, with a total site area of approximately 73,863 sq.m. and an estimated GFA of approximately 264,000 sq.m., for which we had not obtained the relevant land use rights certificates. The aggregate amount of the outstanding land premiums are estimated to be approximately RMB0.9 billion as of December 31, 2018. On March 22, 2019, we obtained re-development right for a GFA of approximately 142,000 sq.m. for the project in Shenzhen.

We cannot assure you that we will receive the various land use rights certificates within the expected time frame, because the timing of issuance of such certificates may be subject to factors out of our control, including the relevant government resettlement schedules. If we fail to receive such certificates, our development schedule may be disrupted, which, in turn, may have a material and adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will not encounter problems in obtaining other government approvals or in fulfilling the conditions required for obtaining other government approvals and certificates. If we fail to obtain the relevant approvals or to fulfill the conditions of the approvals and certificates for our property development, those developments may not proceed on schedule. As a result, our business, results of operations and financial condition may be materially and adversely affected.

**We are exposed to contractual and legal risks related to pre-sales, which could have a material adverse effect on our business, financial condition and result of operations**

We make certain undertakings in our pre-sale contracts, and our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we fail to complete a pre-sold property on time, we may be liable to the relevant customers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A customer may also refuse to accept the delivery or even terminate the pre-sale contracts if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience any delays in the completion and delivery of our properties, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant pre-sale contract. Any of such factors could have a material adverse effect on our business, financial condition and results of operations.

**Changes of PRC laws and regulations with respect to pre-sales may adversely affect our business**

We depend on cash flows from pre-sales of properties as an important source of funding for our property developments. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales of the relevant properties and pre-sales proceeds may only be used to finance the related development. In August 2005, the PBOC issued a report entitled “2004 Real Estate Financing Report,” in which it recommended discontinuing the practice of pre-selling uncompleted properties because it created significant market risks and transactional irregularities. Various PRC authorities and regulators have publicly called for the discontinuance or abolishment of pre-sales, or to impose tighter regulations on such practice. On 21 September 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Solicitation of Relevant Opinions on the Pre-sale Permit for Commodity Houses” (關於請提供商品房預售許可有關意見的緊急通知), asking for opinions on the cancelation of the pre-sale system of commodity residential properties. We cannot assure you that the PRC governmental authority will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of our properties are an important source of financing for our property developments. Consequently, any restriction on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of our capital outlay and would result in our needing to seek alternative means to finance the various stages of our property developments. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans. This, in turn, could have an adverse effect on our business, cash flow results of operations and financial condition.

**Our expansion may be risky, costly, time consuming and face execution risks. If our development fall short of our expansion plans or if the plans are later proved ill advised, our prospects, business, financial condition and results of operations may be adversely affected**

We are currently engaged in property development and property investment. We plan to expand our property portfolio in China. We also plan to provide financial support, through an investment fund, to selected start-up entrepreneurs. There are significant risks involved in our expansion plans, including whether the timing and size of our expansion plans will result in greater revenues and profitability, whether the expansion plans will burden our Group with excessive debt or other costs and, further, whether we will be able to expand in a timely and efficient manner. For example, we may not be able to receive expected return from our investment in start-up companies. Our success depends largely on our ability to anticipate and react to expected or unforeseen changes in future demand. In particular, our business may be affected in the future if either our decision to expand our businesses, or the timing and progress of our expansion, proves not to have anticipated market demand correctly. If we over-expand or demand does not grow as expected, it could have a material adverse effect upon our business, financial condition and operations.

**We rely on third-party architecture and design firms and construction contractors for various services relating to our property developments and are subject to risks relating to their performance and reputation and any additional unforeseen costs associated with engaging them**

We engage third-party architecture and design firms and construction contractors to carry out various services relating to our property development projects. Services provided by third-party architecture and design firms include master planning, architectural design, landscape design, interior design and ancillary facilities design. Services provided by third-party construction contractors include construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. Construction and completion of our projects is, therefore, largely subject to the performance of these independent firms and contractors. When selecting third-party architecture and design firms, we take into consideration factors such as reputation, technical abilities, product innovation capabilities, track record in developing similar projects, service standards and past relationship with us. Although we generally engage firms or designers that are reputable, we cannot assure you that the work or designs rendered by any of these firms will meet the needs and preferences of our potential customers. We generally select independent contractors through a tender process. Although we invite contractors to tender bids which we assess and consider according to their reliability, timeliness, quality, past relationship with us, track record and references, and our supervision of the construction progress once a contract is awarded, we cannot assure you that the services rendered by any of these independent contractors or their subcontractors will be satisfactory or meet our quality standard, especially since it is difficult for us to effectively monitor the quality and progress of contracted work at all times.

In addition, reputation and brand name are important to architecture and design firms and construction companies. Any negative incident or negative publicity affecting the reputation of these firms and companies may in turn have a negative impact on our properties that are designed or constructed by them. Moreover, construction or completion of our property developments may be delayed, and we may incur additional costs, due to financial or other difficulties related to these design firms and contractors. Any of these factors could have a material adverse effect on our business, reputation, results of operations and financial position.

**Changes in the tax rates or revocation of tax exemptions may adversely affect our profitability**

Pursuant to the newly promulgated Enterprise Income Tax Law of the PRC (“New Tax Law”), which was promulgated on March 16, 2007 and became effective on January 1, 2008, the new enterprise income tax (“EIT”) rates for domestic and foreign enterprises are unified at 25% effective from January 1, 2008. As a result, the EIT rate of all the subsidiaries of the Company incorporated in the PRC have changed from 33% to 25% with effect from January 1, 2008. The New Tax Law came into effect on January 1, 2008, and the Foreign Enterprise Income Tax Law and its Implementation Rules were repealed.

There can be no assurance that the existing PRC Government policies and legislations on tax will continue and any change in the PRC tax policies or legislations regarding the tax exemptions currently enjoyed by us may result in a change in our effective tax rate, which may have an adverse impact on our profitability.

**If our provisions for land appreciation tax (“LAT”) prove to be insufficient, our financial results would be adversely affected**

Our properties developed for sale are subject to LAT. Under PRC tax laws and regulations, all income derived from the sale or transfer of land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT is calculated based on proceeds received from the sale of properties less deductible expenditures as provided in the relevant tax laws. We make provisions for the estimated full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time pending settlement with the relevant tax authorities. As we often develop our projects in phases, deductible items for the calculation of LAT, such as land costs, are apportioned among different phases of development. Provisions for LAT are made on our own estimates based on, among other things, our own apportionment of deductible

expenses which is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. We only prepay a portion of such provisions each year as required by the local tax authorities. In 2016, 2017 and 2018, we made provisions for LAT in RMB4.9 million, RMB170.8 million and RMB373.1 million (US\$54.3 million), respectively. We cannot assure you that the relevant tax authorities will always agree with our calculation of LAT liabilities, nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount, our cash flow, results of operations and financial condition may be materially and adversely affected. In addition, as we continue to expand our property developments, we cannot assure you that our provision for LAT obligations based on our estimates in new markets will be sufficient to cover our actual LAT obligations. As there are uncertainties as to when the tax authorities will enforce the LAT collection and whether it will apply the LAT collection retrospectively to properties sold before the enforcement, any payment as a result of the enforcement of LAT collection may significantly restrict our cash flow position, our ability to finance our land acquisitions and to execute our business plans.

### **Legislation enacted in Bermuda in response to the European Union’s review of harmful tax competition could adversely affect our operations**

During 2017, the European Union Economic and Financial Affairs Council (“ECOFIN”) released a list of non-cooperative jurisdictions for tax purposes. The stated aim of this list, and accompanying report, was to promote good governance worldwide in order to maximize efforts to prevent tax fraud and tax evasion. To address concerns relating to economic substance, Bermuda enacted The Economic Substance Act 2018 which came into effect on December 31, 2018. Such legislation requires certain entities in Bermuda engaged in “relevant activities” to maintain a substantial economic presence in Bermuda and to satisfy economic substance requirements. The list of “relevant activities” includes carrying on as a business any one or more of: banking, insurance, fund management, financing, leasing, headquarters, shipping, distribution and service center, intellectual property and holding entities. The introduction of the substance regime in Bermuda may present difficulties for us. As a result of the introduction of such legislation we may be required to be directed and managed in Bermuda, have an adequate level of qualified employees in Bermuda, incur an adequate level of annual expenditure in Bermuda, maintain physical offices and premises in Bermuda or perform core income-generating activities in Bermuda. To the extent we are required to increase our substance in Bermuda to satisfy such requirements, it could result in additional costs that could adversely affect our financial condition or results of operations.

Despite enacting legislation designed to satisfy the commitment made by Bermuda to address ECOFIN’s concerns relating to economic substance, on March 12, 2019, Bermuda was placed on the EU’s list of non-cooperative tax jurisdictions. The effect of this listing is not yet clear, but Member States of the European Union may choose to apply a range of countermeasures to Bermuda and entities registered in Bermuda, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. In addition, new provisions in EU legislation prohibit EU funds from being channeled or transited through entities in countries on the list of non-cooperative tax jurisdictions. The Bermuda Government has stated that it believes the relevant Bermuda legislation complies with EU requirements and is committed to reversing Bermuda’s inclusion on the list of non-cooperative tax jurisdictions at the earliest opportunity, but there can be no assurance that the Bermuda Government will be successful in these efforts.

### **Failure to implement our strategy could adversely affect our operations and business**

We will have to continually improve the quality of our management, increase the efficiency of its operating and financial systems, procedures and controls and expand the size of our workforce. There can be no assurance that we will be able to achieve any or all of the above successfully.

The expansion of our operations and business also depends on our ability to implement our strategies for future growth. Whether these strategies can be implemented is dependent on a number of factors. We may also require additional funds from time to time to pursue our future strategies. There can be no assurance that our strategies can be implemented successfully or that funds required to implement such strategies will be available.

**The total GFA of some of our developments may exceed the original permitted GFA and the excess GFA is subject to governmental approval and will require us to pay additional land premium**

The permitted total GFA for a particular development is set out in various governmental documents issued at various stages. In many cases, the underlying land grant contract will specify permitted total GFA. Total GFA is also set out in the relevant urban planning approvals and various construction permits. If constructed total GFA exceeds the permitted total, or if the completed development contains built-up areas that the authorities believe do not conform to the approved plans as set out in relevant construction works planning permit, we may not be able to obtain the acceptance and compliance form of construction completion (竣工驗收備案表) for our development and, as a consequence, we would not be able to deliver individual units to purchasers or to recognize the related pre-sale proceeds as revenue. Moreover, excess GFA requires additional governmental approval, and the payment of additional land premium. If issues related to excess GFA cause delays in the delivery of our products, we may also be subject to liability to purchasers under our sales and purchase agreements. We cannot assure you that constructed total GFA for each of our existing projects under development or any future property developments will not exceed permitted total GFA, or that the authorities will determine that all built-up areas conform to the plans approved as set out in the construction permit. Moreover, we cannot assure you that we would have sufficient funding to pay any required additional land premium or to take any remedial action that may be required in a timely manner, or at all. Any of these factors may materially and adversely affect our reputation, business, results of operations and financial condition.

**Compliance with PRC laws and regulations regarding environmental protection or preservation of antiquities and monuments could result in substantial delays in construction schedule and incurrence of additional costs**

We are subject to extensive PRC laws and regulations concerning environmental protection and preservation of antiquities and monuments which impose fines for violation and authorize government authorities to shut down any construction sites that fail to comply with governmental orders requiring the cessation of certain activities causing environmental damage. The application of such laws and regulations vary greatly according to a site's location, its environmental condition, present and former use, as well as the circumstances of its adjoining properties. Such variation in application may result in delays in our project completion and may cause us to incur substantial compliance and other costs and severely restrict our project development activities in certain regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and the related assessment documents must be submitted to the relevant government authorities for approval before commencement of project construction. If we fail to meet such requirements, the local authorities may issue orders to suspend our construction activities and impose a penalty of not less than 1% but no more than 5% of the total investment of the project. We cannot assure you that we will be able to comply with all such requirements with respect to environmental assessments. In the event of a suspension of construction and/or imposition of a fine as a result of our non-compliance, our financial condition may be materially and adversely affected.

There is a growing awareness of environmental issues in the PRC and we may sometimes be expected to meet more stringent standards than those under applicable environmental laws and regulations. We have not adopted any special environmental protection measures other than the measures generally taken in the ordinary course of business by comparable companies in our industry. There is no assurance that more stringent requirements on environmental protection will not be imposed by the relevant PRC governmental authorities in the future. If we fail to comply with existing or future environmental laws and regulations or fail to meet public expectations, our reputation may be damaged or we may be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, results of operations and financial condition.

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

We may be involved in disputes with various parties involved in the development and sale of our properties, including contractors, suppliers, construction workers, purchasers and project development partners. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. As some of our projects comprise multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments. From time to time, our officers and management may be parties to litigation or other legal proceedings. Even though our company may not be directly involved in such proceedings, such proceedings may affect our reputation and, consequently, adversely impact our business.

**Any deterioration in the quality and reputation of our brand or any infringement of our intellectual property rights could adversely affect our business, financial condition or results of operations**

We rely to a significant extent on our brand name, "Skyfame", in marketing our properties on sale or management of our investment properties and hotels. Our ability to attract and retain guests depends, in part, on the public recognition of our brand and its associated reputation. In addition, the success of our other businesses may indirectly depend on the strength and reputation of our brand. Such dependence makes our business susceptible to risks regarding brand obsolescence and to reputational damage. We intend to continue to use our brand "Skyfame" to expand our operations and other businesses. If our brand becomes obsolete or is viewed as outdated or lacking in quality or consistency, we may be unable to attract property buyers, lessees or guests to our hotels. Brand value is based largely on subjective consumer perception and can be damaged by isolated incidents that diminish consumer trust. Any negative incident or negative publicity concerning us or our business could adversely affect our reputation and business. Our brand value and consumer demand for our properties could decline significantly if we fail to maintain the quality of our properties or fail to deliver a consistently positive experience for the purchasers of our properties, or if we are perceived to have acted in an unethical or socially irresponsible manner.

In addition, our efforts to protect our brand name may not be adequate, and we may be unable to identify any unauthorized use of our brand name or to take appropriate steps to enforce our rights on a timely basis. Any unauthorized use or infringement of our brand name may impair our brand value, damage our reputation and materially and adversely affect our business and results of operations. In addition, we have appointed Jones Lane LaSalle to act as the consultant to our property management of our residential project at Zhoutouzui, Guangzhou, and we allow our property management company to manage our properties and may in the future authorize additional non-Group companies, to use our brand. While we seek to maintain our brand image by requiring these companies to comply with relevant rules and standards relating to the use of our brand name, we cannot assure you that these parties will not use our brand name in a way that negatively affects our reputation and the reputation of our projects, which in turn may have an adverse effect on our results of operations and financial condition.

Furthermore, there are many factors that could negatively affect the reputation of our brand. Changes in ownership or management practices, the occurrence of accidents or injuries, crimes, natural disasters, individual guest notoriety, or similar events can have a substantial negative impact on our reputation, create adverse publicity and cause a loss of consumer confidence in our business. Because of the regional nature of our brand and business, events occurring in one location could have a resulting negative effect on the reputation and operation of otherwise successful locations. If our reputation is damaged, our business, financial condition or results of operations could be adversely affected.

We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite the precautions taken, it may be possible for third parties to obtain and use our intellectual property

without authorization, which may adversely affect our business and reputation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and, consequently, adversely affect our business and results of operations.

**We may not have adequate insurance coverage to cover our potential liability or losses and, as a result, our business, results of operations and financial condition may be materially and adversely affected**

We maintain insurance as required by applicable PRC laws and regulations and as we consider appropriate for our business operations. We do not, however, maintain insurance against all risks associated with our operations, such as insuring our projects under development against natural or accidental damage and destruction by fire, flood, lightning, explosions or other hazards during construction periods or insuring our assets against certain natural disasters. We may incur losses, damages or liabilities during any stage of our property development and we may not have sufficient funds to cover the same or to rectify or replace any uninsured property or project that has been damaged or destroyed. In addition, any payments we are obligated to make to cover any losses, damages or liabilities may materially and adversely affect our business, results of operations and financial condition.

## **RISKS RELATING TO OUR INDUSTRY**

**The real estate industry in the PRC is still at an early stage of development, and the property market and related infrastructure and mechanisms have not been fully developed**

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC has been growing rapidly in recent years, it is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond the Group's control, may affect the development of the property market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC. The lack of a liquid secondary market for residential real estate may discourage investors from acquiring new properties. 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 further inhibit demand for residential developments.

In addition, the property market in the PRC is rapidly changing due to factors such as fluctuations in regional economy, availability of competitive property developments, product quality as well as changes in customer preferences which may have a direct impact upon our sales. As property development projects take a long time and property market changes quickly, if we fail to respond in time to changes in the property market, our developments may not meet the market demand and may lead to poor sales. Further, if we position our developments incorrectly or our competitors supply a large number of properties in a very short period of time, this will also affect our sales. If we cannot respond to changes in market conditions or changes in customer preferences as swiftly or as effectively as our competitors, our business, results of operations and financial condition could be materially and adversely affected.

**The regulatory measures adopted from time to time by the PRC Government to curtail the overheating of, and foreign investment in, the PRC property market may slow down the growth of the PRC property market or cause the PRC property market to decline**

In response to concerns over the extent of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC Government has introduced policies to stabilize property prices. These policies will increase the purchasing cost of real estate properties and is expected to have a material adverse impact on demand for properties in the PRC, which in turn could have a material adverse effect on our business, financial condition and results of operations. We cannot



assure you that property development and investment activities in the PRC will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities of the PRC where we operate or intend to expand our operations.

### **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 construct 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 its 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, it 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 its business, financial condition and results of operations.

### **We face intense competition from other real estate developers**

In recent years, a large number of property developers, including a number of leading Hong Kong property developers and other overseas developers, have begun undertaking property development and investment projects in the PRC. Some of these developers may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us.

Competition among property developers may result in an increase in acquisition costs of land for development, an increase in costs for raw materials, an over-supply of properties, a decrease in property prices in certain parts of the PRC or an inability to sell such properties, a slowdown in the rate at which new property developments are approved or reviewed by the relevant PRC Government authorities and an increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect the our business, financial position and results of operations. In addition, recent market downturns in the PRC may further decrease property prices. If we cannot respond to changes in market conditions in the markets in which the Group operates more swiftly and effectively than its competitors, its business, financial position and results of operations may be materially and adversely affected.

## **RISKS RELATING TO THE PRC**

### **Changes in political and economic policies of the PRC government could affect our business and results of operations**

At present, the PRC is a developing economy. It differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- growth rate;
- the control of foreign exchange; and
- the allocation of resources.

Prior to the PRC Government's adoption of the "open door" reform policies in 1978, the PRC had a planned economy. Since then, the PRC Government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 30 years. With its economic reform policies, the PRC has since transitioned into a more market-oriented economy.

Our ability to continue to expand its business is dependent on a number of factors, including general economic and capital market conditions in the PRC. The PRC Government has implemented various measures to control the rate of economic growth and uses its monetary policies to influence the economy.

As a significant portion of our business operations and assets are in the PRC, the business, prospects, financial condition and results of operations may be adversely affected by political, economic and social developments in the PRC, as well as by regional events affecting the PRC. Such political, economic and social developments include, but are not limited to, changes in government policies, political instability, expropriation, nullification of existing contracts due to change in law, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions. Any such changes in the PRC may have a material adverse effect on our business, financial condition and results of operation.

**There are uncertainties regarding the interpretation and enforcement of the PRC laws and regulations**

The PRC legal system is based on written statute and prior court decisions can be cited only as a reference and are not binding precedents. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action that may be taken against us in the PRC.

**The PRC legal system is less developed than legal systems in certain other jurisdictions and embodies inherent uncertainties, such as the uncertainties associated with the implementation of the NDRC Notice that could have adverse consequences for the Issuer, the Notes and the holders of the Notes.**

Our operations are conducted in the PRC. The PRC legal system is based on written statutes and thus prior court decisions can only be cited as reference and have limited use as precedents. Since the late 1970s, the PRC government has been developing a comprehensive system of laws, regulations and rules in relation to economic matters.

However, due to the fact that these laws, regulations and rules have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, regulations and rules involve some degree of uncertainty with respect to the outcome of any legal action that may be taken against us in the PRC. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements due to any change in such regulation, we may be subjected to penalties or other enforcement actions by relevant PRC government authorities. In addition, the administration of the NDRC Notice may be subject to a certain degree of executive and policy discretion by the NDRC. However, there is no assurance that we will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC

within the prescribed timeframe. The NDRC Notice does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, therefore there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for us, the Notes or the investors in the Notes. There is also no assurance that the registration with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC.

In addition, the PRC legal system is based, in part, on governmental policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. Furthermore, we may be deemed to have violated certain policies or rules for the actions of our counterparties in various transactions even if we are not aware of whether our counterparties are acting in compliance with applicable PRC laws and regulations. As a result, we may not be aware of actual or deemed violations of such policies and rules until some time after such violations have taken place. In addition, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. Furthermore, any litigation we undertake in the PRC, regardless of its outcome, may be protracted and result in substantial costs to us and diversion of both our resources and management attention.

### **Devaluation or appreciation in the value of the Renminbi could adversely affect our profits**

The external value of the Renminbi is subject to changes in policies of the PRC Government and to international economic and political developments. The People's Bank of China will periodically adjust the Renminbi exchange rate band as necessary and, as a consequence, the Renminbi exchange rate will be more flexible than before. There is therefore a risk that the fluctuations in the Renminbi exchange rate may be greater than were previously experienced and any large appreciation or devaluation of the Renminbi against the US Dollar could have an adverse effect on the our business and operating results.

### **We may be subject to sanctions by the PRC government if we fail to comply with relevant PRC laws and regulations or be subject to late payment fees if we breach the terms of the land grant contracts**

Under PRC laws and regulations, if a developer fails to develop land according to the terms of the land grant contract (including those relating to designated use of land, time for commencement and completion of development of the land), the relevant government authorities may issue a warning to, or impose a penalty on, the developer or require the developer to forfeit the land use rights.

Under typical land grant contracts, any violation of payment schedule of land premium as stipulated under the land grant contracts may subject a developer to late payment fees or even result in termination of the land grant contracts. We cannot assure you that we will not experience delays in making land premium payment in the future. If we incur late payment fees in the future, our business, financial position and results of operations may be materially and adversely affected.

Under Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), newly built civil buildings shall construct underground spaces as required under relevant rules and regulations for air defense purpose during war time. Therefore local authorities generally stipulate certain site areas of the civil air defense underground spaces of a project during the project planning in accordance with relevant laws, rules and local regulations. According to Civil Air Defense Law and Management Measures of Normal Development and Utilization of Air Defense Projects (人民防空工程平時開發利用管理辦法), civil air defense projects are normally under the management of investors who are entitled to the proceeds from such projects. Hence each company who develops air defense underground spaces has the right to receive proceeds from such projects by lease or other measures. As of December 31, 2018, most of our civil air defense underground spaces are used for car parks, that represent an insignificant portion of our property portfolio. We have accounted for such properties as completed properties held for sale.

**We may be deemed to be a PRC tax resident enterprise under the EIT Law, which could result in unfavorable tax consequences to us and our non-PRC holders of the Notes**

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”) was issued by the NPC, which came in to effect on January 1, 2018 and amended respectively on February 24, 2018 and December 29, 2018, as supplemented by its implementation regulations. Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to a uniform 25% enterprise income tax (“EIT”) on their worldwide income. Under the implementation rules of the EIT Law (the “EIT Rules”), “de facto management bodies” are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China and may remain in China. Therefore, we may be treated as a PRC resident enterprise for EIT purposes and thus be subject to EIT on our worldwide income. However, a PRC resident enterprise is exempt from tax on dividend income received from qualified resident enterprises. The tax consequences to us in the case that we are treated as a PRC resident enterprise are not entirely clear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the EIT Law and the EIT Rules. Furthermore, if we are treated as a PRC “resident enterprise”, we may be obligated to withhold PRC income tax, generally at a rate of 10% on payments of interest on the Notes to investors that are “non-resident enterprises” and a rate of 20% on payments of interest on the Notes to investors that are “non-resident individuals” because the interest may be regarded as being derived from sources within the PRC, unless a lower rate is applicable. If we are required under the PRC tax laws to withhold PRC tax on our interest payable to holders of the Notes who are “non-resident enterprises” or “non-resident individuals,” we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holder of each Notes of such amounts as would have been received by such 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. If we fail to do so, we may be subject to fines and other penalties. Further, if we are treated as a PRC “resident enterprise,” any gain realized by a “non-resident enterprise” investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and, accordingly, may be subject to a 10% PRC tax, while a “non-resident individual” investor might be subject to a 20% PRC tax.

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

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

**Our business depends substantially on the continuing efforts of the members of our senior management and qualified personnel and our ability to attract and retain them, and, if we lose the services of any of these key management and personnel and cannot replace them in a timely manner, or at all, our business may be materially and adversely affected**

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the real estate business. In particular, we rely on Mr. Yu Pan, our chairman, who has more than 29 years of experience in the development and management of properties. If one or more of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all,

and the implementation of our business strategies may be affected, which could materially and adversely affect our operations. In addition, we rely on our employees, which include qualified design, construction management, quality control, marketing, on-site supervisory and construction management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected.

#### **We may be subject to additional payments of statutory employee benefits**

As required by PRC regulations, we make contributions to mandatory social security funds for the benefit of our PRC employees that provide for pension insurance, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and housing funds, to designated government agencies.

We cannot assure you that we will not be subject to any employee complaints regarding payment of the social insurance or housing provident funds against us, or that we will not receive any claims in respect of social insurance contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities.

#### **Voluntary withdrawal from entering into definitive land grant contracts with the local PRC governments after successful bidding for land parcels may lead to the forfeit of the prepayment for the relevant land acquisitions**

Under current PRC laws and regulations, we are required to make a certain deposit to the local PRC governments in order to participate in the tender, auction or listing process. This deposit typically becomes non-refundable after a developer wins a bid for a land parcel. If we have to abort land acquisitions in the future after entering into definitive land grant contracts with the local PRC governments, our business, financial condition and results of operations will be materially and adversely affected.

### **RISKS RELATING TO THE NOTES**

#### **The Notes will be subordinated to all of our secured debt and other obligations and will be structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries, and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Notes**

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future subsidiaries.

The Notes are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The Notes will be structurally subordinated to all our secured indebtedness and other obligations to the extent of the value of the assets securing that indebtedness and other obligations. As of December 31, 2018, we had approximately RMB1,627.6 million (US\$236.7 million) of secured bank and other borrowings. In addition, the Indenture will, subject to some limitations, permit us to incur additional secured indebtedness and the Notes will be effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness will be available to pay obligations on the Notes only after all secured indebtedness, together with accrued interest, has been repaid in full from our assets. If we are unable to repay our secured indebtedness, the lenders could foreclose on substantially all of our assets which serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the Notes. Holders of the Notes will participate in the proceeds of the liquidation of our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Notes, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Notes when outstanding.

In addition, creditors, including trade creditors, of our subsidiaries and any holders of preferred shares in our subsidiaries would have a claim on our 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 subsidiaries and all claims of creditors of our subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2018, our subsidiaries' borrowings accounted for substantially all of our indebtedness.

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

We now have, and will continue to have after the issuance of the Notes, a substantial amount of indebtedness. As of December 31, 2018, we had total bank and other borrowings (including secured and unsecured borrowings from banks, trust company, individual investor and financial institutions and corporate bonds issued to financial institutions and professional investors) of RMB6,362.6 million (US\$925.4 million).

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

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and 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 governing the Notes, our ability to incur additional debt is subject to limitation on indebtedness and preferred stock covenant as described under provisions of the Indenture. Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenant does not typically include such unrealized gains in the calculation of their Consolidated EBITDA. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

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

Certain of our other financing arrangements also impose operating and financial restrictions on our business. See “Description of Other Material Indebtedness.” Such restrictions in our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

**Our 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, restrictions contained in the financing facilities entered into by our subsidiaries and applicable laws. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. 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.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. 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 by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be 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 a double tax treaty 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%. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to “conduit” or shell companies without substantive business activities. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes.

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

The Notes are denominated in U.S. dollars, while substantially all of our revenue are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from 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. Since August 11, 2015, PBOC requires market makers to quote on a daily basis their central parity rates for Renminbi against the U.S. dollar to the China Foreign Exchange Trade System 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. The mid-point price of Renminbi to the U.S. dollar depreciated by approximately 4.71% from August 10, 2015 to August 27, 2015 and continued to depreciate with fluctuations since April 2016. In addition, the 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. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the issuance of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

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

Upon the occurrence of a Change of Control Triggering Event (as defined under Description of the Notes), the holder of each Note will have the option to require us to redeem all or some of the holder's Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."



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

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

#### **We may not be able to repurchase the Notes at the option of the holders of the Notes**

Under the terms of the Notes, we shall, at the option of any Holder, repurchase all of the Notes held by such holder on July 8, 2021 at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) July 8, 2021. If such an event were to occur, the Company may not have sufficient cash in hand and may not be able to arrange financing to repurchase the Notes in time, or on acceptable terms, or at all. There is also no assurance that we would have sufficient liquidity at such time to make the required repurchase of the Notes. The ability to repurchase the Notes in such event may also be limited by the terms of other debt instruments. Our failure to repay, repurchase or redeem the Notes could constitute an Event of Default under the Notes, which may also constitute a default under the terms of our other indebtedness.

#### **We may redeem the Notes in whole in the event we are required to pay additional amounts because we are treated as a PRC “resident enterprise”**

As described under Description of Notes, in the event we are required to pay additional amounts as a result of future changes in existing tax law, or changes to existing official interpretations thereof, and such change 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.

#### **We may be unable to obtain and remit foreign exchange**

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

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

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

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

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability to:

- incur additional indebtedness and issue preferred stock;
- make restricted payments;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends and transfer assets or make inter-company loans;
- issue or sell capital stock of Restricted Subsidiaries;
- permit any Restricted Subsidiary to guarantee any indebtedness of our Company;
- enter into transactions with shareholders or affiliates;
- create liens;
- enter into sale and leaseback transactions;
- sell assets;
- effect a consolidation or merger; or
- engage in different business activities.

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 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 projects jointly with other PRC property developers or other strategic investors or make investments for other strategic reasons. 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 our Restricted Subsidiaries. Although the Indenture governing the Notes 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.

**The insolvency laws of Bermuda and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdictions with which you are familiar**

Because we are incorporated under the laws of Bermuda, an insolvency proceeding relating to us, regardless of where they are brought, would likely involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions.

**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 approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that if listed, a liquid trading market will develop. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. We cannot predict whether an active trading market for the Notes will develop or be sustained.

**The Trustee may request holders of the Notes to provide an indemnity and/or security and/or pre-funding to its satisfaction**

Where the Trustee is under the provisions of the Indenture bound to act at the request or direction of the holders of the Notes, the Trustee shall nevertheless not be so bound unless first indemnified and/or provided with security and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding, in breach of the terms of the Indenture and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

**Redemption may adversely affect your return on the Notes**

As described under “Description of the Notes – Optional Redemption,” the notes are redeemable at our option, and therefore we may choose to redeem the notes at times when prevailing interest rates are relatively low. As a result, you may not be able to reinvest the proceeds you receive from the redemption in a comparable security at an effective interest rate as high as the interest rate on your Notes being redeemed, which may in turn affect the market value of the Notes.

### **The liquidity and price of the Notes following the issuance may be volatile**

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

### **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 HKICPA, 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 HKICPA and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the issuance and our financial information. You should consult your own professional advisors for an understanding of the differences between HKICPA 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 SGX-ST and such 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 SGX-ST, we will be subject to continuing listing obligations in respect of the Notes. The disclosure standards imposed by the SGX-ST 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 certificated form and held through Euroclear, Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depositary 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 holder of the Notes 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 holders of the Notes. 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.

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

The Notes are expected to be assigned a rating of B- by Fitch. The rating addresses our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a corporate family rating of B- (Stable) by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to us, the Notes may adversely affect the liquidity or market price of the Notes.

**Service of process and bringing of original actions in the United States may be difficult, and enforcement of judgments obtained in the United States may be difficult or impossible to enforce in certain jurisdictions where we have assets and/or are organized**

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

**Certain facts and statistics in this offering memorandum are derived from publications not independently verified by us or our advisors**

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

## **RISKS RELATING TO THE COLLATERAL**

### **The pledge of the Collateral may in some circumstances be voidable**

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of the British Virgin Islands and the Bermuda if created within the six months immediately preceding the commencement of a liquidation or, under some circumstances, within a longer period. If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

### **The value of the Collateral may not be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness**

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

The ability of the Trustee and the Collateral Agent, on behalf of the holders of the Notes, to foreclose on the Collateral upon the occurrence of an event of default or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee, the Collateral Agent or holders of the Notes will be able to enforce such security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By its nature, the Collateral, which consists solely of the Capital Stock of Winprofit Investments Limited, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be salable or, if salable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the holders of the 2019 Bonds and may be shared on a *pari passu* basis with holders of other indebtedness ranking *pari passu* with the Notes that we may issue in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the Collateral securing the Notes may not be sufficient to satisfy the obligations of the Company under certain circumstances, including the issuance of Additional Notes or other *pari passu* indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

### **The Intercreditor Agreement may impact the ability of the Company to pay amounts due under the Notes, 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 2019 Bonds or the holders of any future Permitted *Pari Passu* Secured Indebtedness, as a class, 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.

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, the holders of the 2019 Bonds or holders of other Permitted Pari Passu Secured Indebtedness (if any), as a class, may decide whether to take any enforcement action and may thereafter, through their respective trustee 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. Such instructions may only be overridden by instructions from the majority secured parties or, before the Company incurs any Permitted Pari Passu Secured Indebtedness, from the holders of the Notes and the holders of the 2019 Bonds.

The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral charged, assigned or granted pursuant to the Intercreditor Agreement and the Security Documents as are 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 interests of 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, the holders of the 2019 Bonds or the holders of any future Permitted Pari Passu Secured Indebtedness (if any) unless such holders or lender 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.

## **USE OF PROCEEDS**

The gross proceeds from this issuance of the Notes will be approximately US\$105.0 million, which we plan to use for refinancing certain of our existing offshore indebtedness and other general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.



## EXCHANGE RATE INFORMATION

### China

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

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. 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 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
	Low	Average <sup>(1)</sup>	High	
		(RMB per US\$1.00)		
2013 .....	6.0537	6.1412	6.2438	6.0537
2014 .....	6.0402	6.1704	6.2591	6.2046
2015 .....	6.1870	6.2869	6.4896	6.4778
2016 .....	6.4480	6.6400	6.9580	6.9430
2017 .....	6.4773	6.7350	6.9575	6.5063
2018 .....	6.2649	6.9090	6.9737	6.8755
October .....	6.8680	6.9191	6.9737	6.9737
November.....	6.8894	6.9367	6.9553	6.9558
December.....	6.8343	6.8839	6.9077	6.8755
2019				
January.....	6.6958	6.7863	6.8708	6.6958
February .....	6.6822	6.7367	6.7907	6.6912
March.....	6.6916	6.7119	6.7381	6.7112
April .....	6.6870	6.7161	6.7418	6.7347
May.....	6.7319	6.8519	6.9182	6.9027
June (through June 21) .....	6.8510	6.9053	6.9298	6.8686

*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.

## 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 Hong Kong (the “Basic Law”), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the 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, no assurance can be given 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			
	Low	Average <sup>(1)</sup>	High	Period end
		(HK\$ per US\$1.00)		
2013 .....	7.7503	7.7565	7.7654	7.7539
2014 .....	7.7495	7.7554	7.7669	7.7531
2015 .....	7.7495	7.7519	7.7686	7.7507
2016 .....	7.7505	7.7620	7.8270	7.7534
2017 .....	7.7540	7.7950	7.8267	7.8128
2018 .....	7.8043	7.8376	7.8499	7.8305
October .....	7.8260	7.8375	7.8433	7.8393
November.....	7.8205	7.8286	7.8365	7.8244
December.....	7.8043	7.8194	7.8321	7.8305
2019				
January.....	7.8308	7.8411	7.8463	7.8463
February .....	7.8460	7.8477	7.8496	7.8496
March.....	7.8466	7.8492	7.8499	7.8498
April .....	7.8368	7.8445	7.8497	7.8451
May.....	7.8387	7.8478	7.8497	7.8387
June (through June 21) .....	7.8091	7.8313	7.8430	7.8091

*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 forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes without deducting the underwriting fees, commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this offering memorandum.

	As of December 31, 2018			
	Actual		As adjusted	
	RMB (unaudited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
	(in thousands)			
<b>Cash and cash equivalents<sup>(1)</sup></b> .....	2,455,473	357,133	3,177,401	462,133
<b>Short-term borrowings<sup>(2)</sup></b>				
Bank and other borrowings				
– due within one year .....	2,817,188	409,743	2,817,188	409,743
Derivative financial liabilities .....	2,138	311	2,138	311
<b>Total short-term borrowings</b> .....	2,819,326	410,054	2,819,326	410,054
<b>Long-term borrowings<sup>(2)</sup></b>				
Bank and other borrowings				
– due after one year .....	3,534,510	514,073	3,534,510	514,073
Derivative financial liabilities .....	8,757	1,274	8,757	1,274
Notes to be issued .....	–	–	721,928	105,000
<b>Total long-term borrowings</b> .....	3,543,267	515,347	4,265,195	620,347
<b>Total equity</b> .....	3,303,559	480,483	3,303,559	480,483
<b>Total capitalization<sup>(3)</sup></b> .....	6,846,826	995,830	7,568,754	1,100,830

*Notes:*

- (1) Cash and cash equivalents include pledged deposits of approximately RMB45.4 million (US\$6.6 million) as of December 31, 2018.
- (2) Subsequent to December 31, 2018, we have, in the ordinary course of business, entered into additional financing arrangements or placing agreements to finance our property developments, repay existing indebtedness and for general corporate purposes. These additional borrowings are not reflected in the table above. See “Description of Other Material Indebtedness.”
- (3) Total capitalization represents total long-term borrowings plus total equity.

In the future, we may from time to time incur substantial additional indebtedness (including bank borrowings and/or onshore or offshore bond offerings) and contingent liabilities. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2018.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of profit or loss data for 2016, 2017 and 2018 and the selected consolidated statement of financial position data as of December 31, 2016, 2017 and 2018 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for the year ended December 31, 2017 and 2018, as audited by BDO Limited Certified Public Accountants, the independent certified public accountants, and included elsewhere in this information memorandum. Our financial statements for the years of 2016, 2017 and 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements, included elsewhere in this information memorandum.

### SELECTED CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (unaudited)
	(in thousands, except for percentages)			
Revenue .....	1,507,971	4,080,514	6,191,763	900,555
Cost of sales and services .....	(1,196,640)	(3,197,387)	(4,305,878)	(626,264)
Gross profit .....	311,331	883,127	1,885,885	274,291
Other income and gains, net .....	4,048	34,100	7,662	1,114
Sales and marketing expenses .....	(106,971)	(152,913)	(156,851)	(22,813)
Administrative and other expenses .....	(163,597)	(219,828)	(305,691)	(44,461)
Unrealised exchange (loss)/gain .....	(97,231)	111,909	(74,171)	(10,788)
Impairment loss on trade and other receivables .....	–	–	(5,721)	(832)
Impairment loss on loan to a non-controlling shareholder of a subsidiary .....	–	–	(524)	(76)
Fair value changes in investment properties .....	10,051	35,701	66,405	9,658
Gain on properties valuation .....	–	353,351	203,297	29,568
Impairment loss on goodwill .....	–	–	(13,554)	(1,971)
Gain from bargain purchase .....	–	–	81,214	11,812
Share of loss of joint venture, net of tax ....	–	–	(8,101)	(1,178)
Fair value changes in derivative financial asset/liabilities .....	11,121	13,080	(1,476)	(215)
Gain on early repayment of unsecured bonds .....	–	–	1,979	288
Loss on early repayment of term loans .....	–	(23,418)	–	–
Gain on disposal of subsidiaries, net of tax .....	97,285	–	–	–
Finance costs .....	(3,051)	(33,088)	(53,920)	(7,842)
Finance income .....	32,771	36,483	17,669	2,570
<b>Profit before income tax .....</b>	<b>95,757</b>	<b>1,038,504</b>	<b>1,644,102</b>	<b>239,125</b>
Income tax expense .....	(9,518)	(491,232)	(823,346)	(119,751)
<b>Profit for the year .....</b>	<b>86,239</b>	<b>547,272</b>	<b>820,756</b>	<b>119,374</b>
<b>OTHER FINANCIAL DATA</b>				
<b>(UNAUDITED)</b>				
EBITDA <sup>(1)</sup> .....	61,864	673,135	1,452,225	211,217
EBITDA Margin (%) <sup>(2)</sup> .....	4%	16%	24.0%	24.0%

*Notes:*

- (1) EBITDA is not a standard measure under HKICPA. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs, depreciation and amortization and impairment loss. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash 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. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined under Description of the Notes. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (unaudited)
	(in thousands)			
<b>Non-current assets</b>				
Property, plant and equipment.....	251,390	239,497	693,859	100,918
Investment properties .....	588,370	1,094,400	2,907,157	422,828
Goodwill.....	13,554	13,554	–	–
Interest in a joint venture .....	–	–	15,899	2,312
Financial asset at fair value through profit or loss.....	–	–	10,000	1,454
Available-for-sale investment .....	10,000	10,000	–	–
Loan to a non-controlling shareholder of a subsidiary.....	–	52,900	–	–
Derivative financial assets.....	9,022	46,144	60,388	8,783
Deferred tax assets .....	57,353	18,142	25,649	3,730
	<u>929,689</u>	<u>1,474,637</u>	<u>3,712,952</u>	<u>540,025</u>
<b>Current assets</b>				
Properties held for development.....	161,160	488,072	–	–
Properties under development .....	7,971,027	3,552,378	7,554,327	1,098,731
Properties held for sale .....	177,228	3,754,243	4,144,040	602,726
Considerations receivable .....	277,401	–	–	–
Loan to a non-controlling shareholder of a subsidiary.....	52,900	–	51,847	7,541
Trade and other receivables.....	862,037	1,200,792	1,611,504	234,384
Prepayment/deposits for proposed projects for sale .....	614,093	1,385,269	994,928	144,706
Contract costs.....	–	–	80,698	11,737
Short-term investments.....	–	100,000	–	–
Prepaid income tax.....	93,368	–	–	–
Restricted and pledged deposits .....	987,290	1,313,264	676,630	98,412
Cash and cash equivalents.....	1,794,440	2,983,799	2,410,063	350,529
	<u>12,990,944</u>	<u>14,777,817</u>	<u>17,524,037</u>	<u>2,548,766</u>
<b>Current liabilities</b>				
Trade and other payables.....	1,190,525	1,374,346	2,058,288	299,366
Contract liabilities .....	–	–	8,559,878	1,244,983
Properties pre-sale deposits .....	7,290,196	7,821,274	–	–
Bank and other borrowings – current portion..	1,067,634	1,171,198	2,817,188	409,743
Derivative financial liabilities – current portion .....	11,177	–	2,138	311
Amount due to a joint venture .....	–	–	55,817	8,118
Considerations payable .....	–	–	50,000	7,272
Income tax payable .....	–	137,192	251,998	36,652
	<u>9,559,532</u>	<u>10,504,010</u>	<u>13,795,307</u>	<u>2,006,445</u>
<b>Net current assets</b> .....	<u>3,431,412</u>	<u>4,273,807</u>	<u>3,728,730</u>	<u>542,321</u>
<b>Total assets less current liabilities</b> .....	<u>4,361,101</u>	<u>5,748,444</u>	<u>7,441,682</u>	<u>1,082,346</u>
<b>Non-current liabilities</b>				
Bank and other borrowings – non-current portion .....	2,388,429	3,104,096	3,534,510	514,073
Derivative financial liabilities – non-current portion .....	2,182	12,333	8,757	1,274
Deferred tax liabilities.....	170,522	253,388	594,856	86,517
	<u>2,561,133</u>	<u>3,369,817</u>	<u>4,138,123</u>	<u>601,864</u>
<b>Net assets</b> .....	<u>1,799,968</u>	<u>2,378,627</u>	<u>3,303,559</u>	<u>480,482</u>
<b>Capital and reserves</b>				
Share capital.....	24,456	24,469	24,659	3,586
Reserves .....	1,740,653	2,301,560	2,888,766	420,153
<b>Equity attributable to owners of the Company</b> .....	<u>1,765,109</u>	<u>2,326,029</u>	<u>2,913,425</u>	<u>423,739</u>
<b>Non-controlling interests</b> .....	<u>34,859</u>	<u>52,598</u>	<u>390,134</u>	<u>56,743</u>
<b>Total equity</b> .....	<u>1,799,968</u>	<u>2,378,627</u>	<u>3,303,559</u>	<u>480,482</u>

## RESULT OF OPERATIONS

### 2018 Compared to 2017

#### *Revenue*

For the year ended December 31, 2018, our revenue reached RMB6,191.8 million (US\$900.6 million), representing an increase of 51.7% as compared to RMB4,080.5 million in 2017. The increase was primarily attributable to the increase in GFA delivered and higher average selling price of properties sold.

#### *Cost of sales and services*

Our cost of sales and services increased by 34.7% from RMB3,197.4 million in 2017 to RMB4,305.9 million (US\$626.3 million) in 2018, primarily due to an increase in GFA delivered during 2018 as compared to 2017.

#### *Gross profit*

As a result of the foregoing, our gross profit increased by 113.6% from RMB883.1 million in 2017 to RMB1,885.9 million (US\$274.3 million) in 2018. We recorded overall gross profit margin of 30.5% in 2018, compared to 21.6% in 2017. The increase in our gross profit margin was mainly due to the increase in GFA delivered at higher selling prices.

#### *Other income and gains, net*

Our other income and gains, net, decreased by 77.4% from RMB34.1 million in 2017 to RMB7.7 million (US\$1.1 million) in 2018. This decrease was primarily due to the refund of our overpayment of land premium and receipt of service income for construction works in a total amount of RMB27.4 million in 2017, which attributed to the significant increase in other income and gains in 2017.

#### *Sales and marketing expenses*

Our selling and marketing costs increased by 2.6% from RMB152.9 million in 2017 to RMB156.9 million (US\$22.8 million) in 2018, primarily due to the increase in marketing related expenses.

#### *Administrative and other expenses*

Our administrative and other expenses increased by 39.1% from RMB219.8 million in 2017 to RMB305.7 million (US\$44.5 million) in 2018, primarily due to the increase in corporate headcount that resulted in the increase of staff cost.

#### *Unrealized exchange gain/(loss)*

We had unrealized exchange loss of RMB74.2 million (US\$10.8 million) for the year ended December 31, 2018, compared to a gain in the amount of RMB111.9 million in 2017. Such loss was primarily due to the depreciation of Renminbi against HK Dollars and our HK Dollar denominated borrowings.

#### *Fair value change in investment properties*

Our fair value gains in investment properties increased from RMB35.7 million in 2017 to RMB66.4 million (US\$9.7 million) in 2018, primarily due to the revaluation of investment properties.

#### *Gain on properties valuation*

Our gain on properties valuation decreased from RMB353.4 million in 2017 to RMB203.3 million (US\$29.6 million) in 2018. Gain on properties valuation was recorded upon the transfer from properties under development to investment properties in 2017 and 2018.

### ***Fair value changes in derivative financial assets/liabilities***

Our fair value change in derivative financial assets/liabilities changed from a gain of RMB13.1 million in 2017 to a loss of RMB1.5 million (US\$0.2 million) in 2018, which was mainly due to lesser incremental value given to derivative financial assets/liabilities, which was represented by early redemption rights given to the Company on the bonds issued.

### ***Finance cost***

Our finance cost increased by 62.8% from RMB33.1 million in 2017 to RMB53.9 million (US\$7.8 million) in 2018. The increase was primarily because Guangzhou Byland Project was completed in June 2017, and the related finance costs were not capitalised into the cost of sales in 2017.

### ***Finance income***

Our finance income decreased from RMB36.5 million in 2017 to RMB17.7 million (US\$2.6 million) in 2018, primarily due to the decrease of short-term investments and bank deposits amount.

### ***Income tax expense***

Our income tax expense increased from RMB491.2 million in 2017 to RMB823.3 million (US\$119.7 million) in 2018, primarily as a result of the increase of our profit before income tax and provision for land appreciation tax for projects sold in Zhoutouzui Project, Skyfame Nanning ASEAN Maker Town Project and Chongqing Project.

### ***Profit for the period***

As a result of the foregoing, our profit increased from RMB547.3 million in 2017 to RMB820.8 million (US\$119.4 million) in 2018.

## **2017 Compared to 2016**

### ***Revenue***

For the year ended December 31, 2017, our revenue reached RMB4,080.5 million, representing an increase of 170.6% as compared to RMB1,508.0 million in 2016. The increase was primarily attributable to the increase in GFA delivered and higher average selling price of properties sold.

### ***Cost of sales and services***

Our cost of sales and services increased by 167.2% from RMB1,196.6 million in 2016 to RMB3,197.4 million in 2017, primarily due to an increase in GFA delivered during 2017 as compared to 2016.

### ***Gross profit***

As a result of the foregoing, our gross profit increased by 183.7% from RMB311.3 million in 2016 to RMB883.1 million in 2017. We recorded gross profit margin of 21.6% for the year ended December 31, 2017, compared to 20.6% in 2016. The increase in our gross profit margin was mainly due to the increase in GFA delivered at higher selling prices.

### ***Other income and gains, net***

Our other income and gains, net, increased significantly by 752.5% from RMB4.0 million in 2016 to RMB34.1 million in 2017. This increase was primarily due to the refund of our overpayment of land premium and receipt of service income for construction works in a total amount of RMB27.4 million.



### ***Sales and marketing expenses***

Our selling and marketing costs increased by 42.9% from RMB107.0 million in 2016 to RMB152.9 million in 2017, primarily due to the increase in sales commission for Skyfame Nanning ASEAN Maker Town Project and Zhoutouzui Project.

### ***Administrative and other expenses***

Our administrative expenses increased by 34.4% from RMB163.6 million in 2016 to RMB219.8 million in 2017, primarily due to the increase in corporate headcount that resulted in the increase of staff cost.

### ***Unrealized exchange gain/(loss)***

We had unrealized exchange gain of RMB111.9 million for the year ended December 31, 2017, compared to a loss in the amount of RMB97.2 million in 2016. Such gain was primarily due to the appreciation of Renminbi against HK Dollars and our HK Dollar denominated borrowings.

### ***Fair value change in investment properties***

Our fair value gains in investment properties increased from RMB10.1 million in 2016 to RMB35.7 million in 2017, primarily due to the revaluation of projects.

### ***Gain on properties valuation***

Our gain on properties valuation increased from nil in 2016 to RMB353.4 million in 2017, primarily due to the transfer from properties under development to investment properties.

### ***Fair value changes in derivative financial assets/liabilities***

Our fair value change in derivative financial assets/liabilities increased from RMB11.1 million in 2016 to RMB13.1 million in 2017, which was mainly due to the increase in value embedded in the redemption rights attached to our unsecured bonds.

### ***Finance cost***

Our finance cost increased significantly by 967.7% from RMB3.1 million in 2016 to RMB33.1 million in 2017. The increase was primarily because Guangzhou Byland Project was completed in June 2017, and the related finance costs were not capitalised into the cost of sales in 2017.

### ***Finance income***

Our finance income slightly increased from RMB32.8 million in 2016 to RMB36.5 million in 2017, primarily due to the increase of interest income on short-term investments and bank deposits.

### ***Income tax expense***

Our income tax expense increased significantly from RMB9.5 million in 2016 to RMB491.2 million in 2017, primarily as a result of the increase of our profit before income tax and provision for land appreciation tax for projects sold in Guangzhou Byland Project.

### ***Profit for the period***

As a result of the foregoing, our profit increased from RMB86.2 million in 2016 to RMB547.3 million in 2017.

## Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our gross profit minus selling and marketing expenses and administrative expenses, adding back the following items:

- fair value changes in investment properties;
- gains on properties valuation;
- fair value changes in derivative financial asset/liabilities;
- loss on early repayment of term loans;
- finance costs, net;
- depreciation and amortization of property, plant and equipment; and
- impairment loss.

EBITDA is not a standard measure under HKFRS. As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit or loss for the year. We use EBITDA in addition to profit or loss for the year because profit or loss for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization, impairment loss 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 and amortization expenses as well as reported tax positions, 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 periods indicated:

	For the year ended December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(unaudited)			
	(in thousands)			
<b>Profit before income tax</b> .....	95,757	1,038,504	1,644,102	239,125
<b>Adjustments:</b>				
Fair value changes in investment properties .....	(10,051)	(35,701)	(66,405)	(9,658)
Gains on properties valuation .....	–	(353,351)	(203,297)	(29,568)
Fair value changes in derivative financial assets/liabilities .....	(11,121)	(13,080)	1,476	215
Gain on early repayment of unsecured bonds.....	–	–	(1,979)	(288)
Loss on early repayment of term loans.....	–	23,418	–	–
Impairment loss on loan to a non-controlling shareholder of a subsidiary .....	–	–	524	76
Impairment loss on trade and other receivables .....	–	–	5,721	832
Impairment loss on goodwill .....	–	–	13,554	1,971
Finance costs, net .....	(29,720)	(3,395)	36,251	5,273
Depreciation and amortisation .....	16,999	16,740	22,278	3,240
<b>EBITDA</b> .....	61,864	673,135	1,452,225	211,217
EBITDA Margin (%) .....	4%	16%	24.0%	24.0%

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



## BUSINESS

### OVERVIEW

We are a real estate developer focusing on high-quality commercial and residential properties and specializing in the development of youth community projects with young families as target customers in China. We are headquartered in Guangzhou, Guangdong province and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Huaihai Economic Zone of China, such as Shenzhen, Guangzhou, Zhongshan, Nanning, Chongqing and Xuzhou. We have four business segments, namely, property development, property investment, property management and commercial operations in youth community development projects. Among these segments, property development has contributed a substantial portion of our revenue for the past three years. Since 2016, we have been primarily focusing on the development of properties targeting young families. These properties are equipped with smart living and recreational facilities and are built in relatively smaller unit size, and thus, in affordable price. On December 31, 2018, we were ranked 167th and 182nd nation-wide among the “2018 China Real Estate Enterprises Top 200” by contracted sales GFA and contracted sales volume, respectively, according to CRIC Research Center. On March 20, 2019, we were ranked 163rd in the list of “2019 China Real Estate Development Enterprises Top 500” released by the China Real Estate Association and the China Real Estate Evaluation Center of Shanghai Yiju Real Estate Research Institute.

As of December 31, 2018, we had a total of 15 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in nine cities with a total site area of approximately 1,615,332 sq.m. and an aggregate actual/planned GFA of approximately 7,183,000 sq.m. As of the same date, we had a land bank of approximately 3,417,000 sq.m. of GFA, consisting of approximately 370,000 sq.m. of GFA available for sale of completed properties, approximately 2,783,000 sq.m. of planned GFA under development and 264,000 sq.m. of estimated GFA of projects held for future development. As of December 31, 2018, we have delivered completed saleable GFA of approximately 2,069,000 sq.m. to our customers.

We have received numerous awards and recognitions for our property projects and business operations. In 2019, we received the award of “2019 Quality China Real Estate Developer” from Organizing Committee of the China Real Estate Awards. In 2018, we received the awards of “2018 Quality China Real Estate Developer” from Organizing Committee of the China Real Estate Enterprise Awards, the “2018 Annual Award of the Listed Companies” from Hong Kong Stock Analysts Association, the “2018 China Real Estate Comprehensive Development Professional Leading Brand Value TOP 10 – City Youth Innovation Service” from China Real Estate Top 10 Research Group, the “2018 Chinese Real Estate Industry Outstanding Enterprise” from China Real Estate Industry Management Association, and the “2018 Xuzhou Most Influential Brand Real Estate Enterprises Award” from Xuzhou Media Group. Our Nanning Skyfame City project was awarded the “2018 Commercial Properties at Highest Investment Value” by Guangxi Daily Media Group, Southern Morning Post and Home Weekly. Our Guangzhou Skyfame Byland project was awarded the “2018 China Real Estate Champion List – Top City Central Benchmark Luxurious Residences” by NetEase News Real Estate, the Guangdong Real Estate Association and the Evaluation Committee of China Real Estate Champion list. Our Xuzhou Skyfame Time City project was awarded “2018 Xuzhou Real Estate Annual Festival – Honorary Enterprises Award” and “2018 Xuzhou Real Estate Annual Festival – the Most Influential Brand” by Xuzhou Broadcast and Television Media Group. In addition, our Community of Mr. Fish of Xuzhou Skyfame Time City was awarded the “2018 Top 10 Real Estate Project Award” in Xuzhou by Tencent Xuzhou Station.

In 2016, 2017 and 2018, we recorded revenue of RMB1,508.0 million, RMB4,080.5 million and RMB6,191.8 million (US\$900.6 million), respectively, representing a CAGR of 102.6%. We recorded a net profit attributable to owners of RMB92.9 million, RMB550.5 million and RMB751.3 million (US\$109.3 million) in 2016, 2017 and 2018, respectively, representing a CAGR of 184.4%.

## **COMPETITIVE STRENGTHS**

### **Property development portfolio strategically located across the regions and cities in China with high growth potentials**

Our business activities focus on the regions and cities in China with high growth potentials, such as Guangzhou, Shenzhen and Zhongshan in the Greater Bay Area, Nanning and Chongqing in the Southwestern Region and Xuzhou in the Huaihai Economic Zone of China. These cities have experienced relatively strong economic growth that supports strong housing demand in the past few years. As of December 31, 2018, excluding projects for which we had not obtained the land use rights for the developments, our planned GFA under development and held for future development in each of Guangzhou, Shenzhen, Zhongshan, Nanning, Xuzhou and Chongqing was approximately 133,000 sq.m., 142,000 sq.m., 105,000 sq.m., 1,914,000 sq.m., 673,000 sq.m. and 866,000 sq.m., respectively. We believe that we have established a relatively strong presence in these strategically selected markets, and that we are well positioned to further capture the growing demand for properties by customers in such markets.

### **Specialize in the developments of projects in sizable scale catering to young population**

In 2016, we built our pilot youth community project in Nanning that is specially designed for young home buyers. Our youth community projects offer small-sized residential units at affordable price for young families. These communities are usually equipped with full-scope supporting facilities, such as catering service, entertainment center, education system and medical center. We also build co-working space for young entrepreneurs' start-up businesses in these communities.

As of December 31, 2018, we had four projects under development and held for sales in an aggregate GFA of approximately 3,865,000 sq.m. in Nanning, Xuzhou and Chongqing, which are the models of our youth community projects. Our sizable pilot project in our Nanning Skyfame Garden Project, in which 8,000 households situate, is a project with an aggregate GFA of 1.2 million sq.m. consisting of a 3,000 sq.m. co-work place opened in 2018 and street front shops of 30,000 sq.m. that is expected to be fully delivered to customers in the first quarter of 2019. The other youth community project, Nanning ASEAN Maker Town Project, comprises a shopping mall, a kindergarten and a health care center, which are scheduled to open in 2019 and will serve around 10,000 households in the community. Our first youth community project in Xuzhou of Jiangsu Province, Xuzhou Time City Project, has a total GFA of 468,000 sq.m., with the capacity to accommodate 4,800 households. Xuzhou Times City Project offers retail and commercial spaces in an aggregated GFA of 20,000 sq.m., which will be used mainly as co-working spaces and community retail businesses. Another project in our youth community project pipeline is Phase 2 of Chongqing Project, namely "Chongqing Skyfame • Smart City (重慶天譽•智慧城)." The project is a composite development with a total GFA of approximately 866,000 sq.m. The project will consist of residential apartments, lofts, co-working space and community retail properties. In addition, we provide community services to our residents and financial supports to entrepreneurs in our co-working spaces. Through an investment fund, we provide funding to selected start-ups with business potentials. Thus, the youth community projects not only bring in strong property sales and cash flows, but also provide us with a growing and sustainable stream of income from the provision of community service and investments in start-up business.

### **Recognized brand name with quality products**

We believe that we have established a strong brand name in the strategically selected markets in which we operate. We focus on the development of high-quality commercial and residential properties and the provision of property management services that cater to the needs of our targeted customers. Our projects, such as Guangzhou Westin Hotel and the luxurious residences at Guangzhou Skyfame Byland, were well recognized in the local markets for their distinctive design, which in turn raised the unit price of the properties and generated higher revenue. We have worked closely with leading international and domestic designers and maintain an in-house design team to ensure that our brand image is associated with high quality and value. Our in-house design team supervises third party designers from conceptual to detailed design plans to ensure that we continue to maintain and elevate our brand image and name.

## **Experienced management team and strong risk management capabilities**

Members of our management team have an entrepreneurial spirit, extensive operational expertise and an in-depth knowledge of, and experience in, China's real estate industry. Our board of directors and senior management members, have an average of more than 23 years of experience in the real estate industry. Mr. YU Pan, our chairman and chief executive officer, has 29 years of experience in real estate industries. In addition, we rely on valuable guidance provided by our non-executive directors, each of whom brings along a wealth of experience in fields such as banking, legal and corporate finance. We believe the leadership, vision, management experience and the proven track record of our management team has been and will continue to be instrumental in driving our success.

We believe that we have an established, transparent and sound corporate governance system underpinning our business development. In addition to our Audit Committee, Remuneration Committee and Nomination Committee, we also established a Risk Management Committee in late 2015 to formulate policies to specifically identify risks and develop procedures to counter such risks. For more details on the Risk Management Committee, see "Directors and Senior Management – Risk Management Committee."

## **BUSINESS STRATEGY**

We plan to expand our business operations as a developer specializing in market segments of business potentials. Development of youth communities will be our core business strategy to achieve this goal. Our mission is to develop properties that serve the needs of the young population. To achieve our goal, we intend to implement the following business strategies:

### **Continue to expand in the fast-growing economic regions or cities in China**

We will continue to concentrate on the growth of our business in cities with promising growth potential, convenient accessibility, large young population and supportive governmental policies for start-up businesses. These are key land selection criterias for the development of youth communities. We will also continue to strengthen our presence in the cities in the Greater Bay Area, the Southwestern Region and the Huaihai Economic Zone of China.

### **Continue our development of Youth Community Projects**

We will continue to bolster our brand image as a high-end property developer by executing our strategies to develop our unique product – the youth community projects. Our management team is well equipped with knowledge and experience to enhance our brand image as a youth community developer. With our increased participation in the development of youth community projects in the coming years, we anticipate that this new business line will become the key driver for income and earning of the Group.

### **Continue to promote our brand name**

We place significant emphasis on our brand image and will continue to introduce quality real estate projects and property management services to enhance our profile, reputation and image. In many of our projects, we have outsourced the design work to leading international design firms, such as Skidmore, Owings & Merrill LLP, HBA and AECOM and domestic design firms to create products that reflect the spirit and essence of our vision and assimilate the latest or marketable trends and elements. Our in-house design team works closely with and monitored the work of these third party designers. We will continue to do so in the future.

In addition, during the course of material procurement and contractors engagement, we closely monitor our product quality and the ability of our contractors throughout the development process. We also actively participate in the selection of materials used in our projects in order to ensure desired quality levels are met and to maintain a cohesive brand image for our properties.

## RECENT DEVELOPMENTS

### Resignation of Non-executive Director

Effective from February 18, 2019, Ms. Liu Juan resigned as the non-executive director of the Company.

### Partial Redemption of the 2019 Bonds

On February 19, 2019, we partially redeemed the 2019 Bonds in the amount of US\$12.8 million. Upon completion of the partial redemption, the principal amount US\$17.2 million of the 2019 Bonds remains outstanding.

## OUR BUSINESS SEGMENTS

We broadly classify our business into four business segments, including: (i) property development, (ii) property investment, (iii) property management and (iv) commercial operations. For the property development segment, we develop and sell property projects to customers. For the property investment segment, we lease properties owned by us. For the property management segment, we provide property management services to properties developed by us or third parties. Since 2018, the development and operation of youth community has become an important new business segment of our operation. Following the opening of our youth community projects in Guangzhou and Nanning, we will continue to provide co-working places and community related services to our customers, tenants and other occupants. We principally conduct businesses through our PRC subsidiaries.

The table below sets forth the breakdown of revenue by our business segments, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated. The operations of youth community projects have not generated significant operating results, assets or liabilities to our Group.

	For the year ended December 31,						
	2016		2017		2018		
	RMB'000	%	RMB'000	%	RMB'000	US\$'000	%
Property development..	1,471,330	97.6	4,042,763	99.1	6,122,384	890,464	98.9
Rental income.....	16,514	1.1	17,609	0.4	19,590	2,849	0.3
Property management..	20,127	1.3	20,142	0.5	41,404	6,022	0.7
Commercial operations.....	–	–	–	–	8,385	1,220	0.1
<b>Total .....</b>	<b>1,507,971</b>	<b>100.0</b>	<b>4,080,514</b>	<b>100.0</b>	<b>6,191,763</b>	<b>900,555</b>	<b>100.0</b>



## OUR PROPERTY DEVELOPMENT PROJECTS

### Overview

As of December 31, 2018, we had a total of 15 property development projects at various stages of development. Based on the stage of development, we divide our property development projects into three categories:

- Completed projects, comprising properties for which we have received the requisite completion inspection report from the relevant government construction authority (including completed properties that have been sold);
- Projects under development, comprising properties for which we have obtained the requisite construction works commencement permits but are yet to receive the requisite completion inspection report; and
- Projects held for future development, comprising properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required constructions works commencement permits, as well as properties for which we have not obtained the land use rights certificates but have entered into contractual land grant contracts or agreements to acquire equity interests of project companies holding the land use rights, to obtain the relevant land use rights certificates and started preliminary design work.

The above classification of properties reflects the basis on which we operate our business and may differ from classifications employed for other purposes or by other developers. In general, it takes us approximately three years to construct a building or a building complex. Depending on the size of a development and other factors, however, the entire development period may last substantially longer. We also adjust the pace of our property developments to monitor selling prices, sales volume and the level of our land reserves. As a result, we may obtain multiple sets of governmental approvals and permits, including land use rights certificates from the relevant authorities for a group of property developments that we view as a single property development for business purposes.

The table below sets forth the GFA information of our 15 projects as of December 31, 2018. Many of our property developments consist of more than one parcel of land and require multiple land use rights certificates during the course of these property developments. Where our application for the land use rights certificate in respect of a parcel of land is still pending and we have not paid the land premium in full, we do not assign any value to the land and the properties on such land for the purpose of this offering memorandum. Our GFA information in this offering memorandum is based on our internal records. Information about our site area, estimated GFA, construction costs in this offering memorandum is based on the information on the land use rights certificates and construction permits or, if land use rights certificates are not available, based on our land grant contracts or land use rights transfer agreements.

The table below is a summary of portfolio of our property development projects as of December 31, 2018:

Project	Site area	Actual/ Estimated construction commencement date	Actual/ Estimated presale commencement date	Actual/ Estimated construction completion date	Group's beneficial interest	Completed			Under Development			Held for Future Development		
						Total GFA	Total saleable GFA <sup>(1)</sup>	Saleable GFA remaining unsold	Planned total GFA under development	Planned total saleable GFA <sup>(1)</sup>	Accumulated saleable GFA contracted but not delivered	Leasable GFA	Estimated total GFA	Estimated GFA without land use rights certificates
<b>(A) Completed Projects</b>														
Westin Project (The Westin Guangzhou and HNA Tower) ("威斯汀項目(廣州海航威斯汀酒店及海航大廈))	7,672	Apr 2005	May 2006	May-Nov 2007	100%	140,000	140,000	-	-	-	-	-	-	-
Tianhe Project (HNA Huan Cheng Plaza & A-toft Hotel) ("天河項目(廣州天河雅樂軒酒店及海航寰城廣場))	7,217	Jan 2010	N/A	Apr 2016	100%	112,000	112,000	-	-	-	-	-	-	-
Nanning Skyfame Garden ("南寧天譽花園")	231,563	Aug 2014	Oct 2014	Dec 2016-Dec 2018	80%	896,000	248,000	-	-	-	-	-	-	-
Guiyang Skyfame City ("貴陽天譽城")	156,208	3Q 2008	Q2 2009	Jun 2010-2015	55%	564,000	-	-	-	-	-	-	-	-
Yongzhou Tianyu • Huafu ("永州天譽 • 華府")	70,950	Jun 2012	Nov 2012	Mar 2014-May 2016	70%	181,000	-	-	-	-	-	-	-	-
<b>(B) Projects under development</b>														
Guangzhou Skyfame Byland ("廣州天譽半島")	43,609	Feb 2013	Jan 2015	Jun 2017-2019	100%	309,000	148,000	27,000	11,000	-	-	10,000	-	-
Zhongshan Skyfame Rainbow ("中山天譽虹霓")	35,389	Sep 2017	Sep 2018	Aug 2020	51%	-	-	-	105,000	88,000	36,000	-	-	-
Skyfame Nanning ASEAN Maker Town ("天譽南寧东盟创客城")	194,221	Nov 2015	Nov 2016	Dec 2018-2024	100%	169,000	152,000	2,000	1,150,000	864,000	473,000	50,000	-	-
Nanning Impression of Sandalwood ("南寧檀府印象")	137,881	Apr 2018	Sep 2018	Dec 2020-2022	40%	-	-	-	764,000	564,000	110,000	-	-	-
Xuzhou Skyfame Time City ("徐州天譽時代城")	172,764	Mar 2017	Jul 2017	May 2019-2020	90%	-	-	-	468,000	401,000	303,000	-	-	-
Xuzhou Skyfame Elegance Garden ("徐州天譽雅園")	73,823	Dec 2018	Q3 2019	Dec 2021-2022	78%	-	-	-	205,000	164,000	-	-	-	-
Chongqing Project ("重慶項目") (Acquired in 2018)	219,336	Dec 2015	Jan 2016	Dec 2017-2023	100%	313,000	256,000	93,000	866,000	449,000	69,000	249,000	-	-
Kunming Anning Linxi Valley ("昆明安寧林溪谷") (Acquired in 2018)	190,836	Nov 2018	Jul 2019	Mar 2020-2021	n/a <sup>(2)</sup>	-	-	-	296,000	253,000	-	-	-	-
<b>(C) Projects held for future development</b>														
Shenzhen Dachitdat Project ("深圳大捷項目")	23,600	Q2 2019	Q3 2020	Dec 2021	100%	-	-	-	-	-	-	-	142,000	142,000
Guangzhou Luogang Project ("廣州羅崗項目")	50,263	2020	2021	2023	100%	-	-	-	-	-	-	-	122,000	-

Notes:

- Total saleable GFA and planned total saleable GFA exclude unsaleable area for municipal facilities, saleable GFA allocated to the cooperative partner and resettlement housing to be provided without compensation in certain projects.
- We share profit from the project company of Kunming Anning Linxi Valley through a contractual arrangement.

## **Description of Projects**

As of December 31, 2018, we had a total of 15 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in nine cities with a total site area of approximately 1,615,332 sq.m. and an aggregate actual/planned GFA of approximately 7,183,000 sq.m. As of the same date, our portfolio of land bank was in aggregate of 3,417,000 sq.m. of saleable GFA, consisting of approximately 370,000 sq.m. of GFA available for sale of completed properties, approximately 2,783,000 sq.m. of planned GFA under development and 264,000 sq.m. of planned GFA of projects held for future development. Up to December 31, 2018, we have delivered completed saleable GFA of approximately 2,069,000 sq.m. to our customers.

The Group has completed the development of projects that include Westin Project (The Westin Guangzhou and HNA Tower) and Tianhe Project (Aloft Guangzhou Tianhe Hotel and HNA Huancheng Plaza) in Tianhe District of Guangzhou, Tianyu City in Guiyang, Guizhou Province and Yongzhou Tianyu • Huafu in Hunan Province.

The following sets out a summarized description of projects under development and held for future development.

### ***Guangzhou Skyfame Byland (“廣州天譽半島”)***

Guangzhou Skyfame Byland is a residential and commercial property project located in Haizhu District, Guangzhou, Guangdong Province. Opposite to the renowned White Swan Hotel, Skyfame Byland offers a full waterfront view of the Pearl River. Commenced in February 2013, this project occupies a total site area of 43,609 sq.m., consisting of residential apartments, serviced apartments, offices, car parking facilities and other supporting commercial facilities of a total GFA of approximately 320,000 sq.m. A total saleable GFA of approximately 81,000 sq.m. in towers A4 and A5 and some car parking spaces were handed over to Guangzhou Port Group Co., Limited, an original user of the land for this project, who is entitled to share 28% in the GFA of the project according to the relevant joint venture agreement. Other than tower A1 which is under interior decoration works, the remaining parts of the project were completed in June 2017. As at December 31, 2018, an accumulate of approximately 111,000 sq.m. were handed over to our customers and RMB5,151.9 million were recognized in revenue. As of December 31, 2018, approximately 10,000 sq.m. representing 28 residential units and 800 car parking spaces remained saleable. We retained hotel tower A1 with a GFA of approximately 11,000 sq.m. and 800 parking space for leasing.

### ***Zhongshan Skyfame Rainbow (“中山天譽彩虹”)***

In May 2017, we entered into an acquisition agreement to acquire 51% equity interest of the project. Zhongshan Skyfame Rainbow is located on Tsui Sha Road, Zhongshan, Guangdong Province and is comprised of residential and ancillary commercial properties. This project is expected to occupy a site area of approximately 35,389 sq.m. with a planned aggregate GFA of approximately 105,000 sq.m. We obtained the land use rights certificate for this project in May 2018. We launched the first phase of pre-sale in September 2018. As of December 31, 2018, an approximately 57,000 sq.m. of residential units are on pre-sale, and we have achieved contracted sales of approximately RMB0.59 billion with a total saleable GFA of 36,000 sq.m.

### ***Nanning Skyfame Garden (“南寧天譽花園”)***

Nanning Skyfame Garden is a residential and commercial property project located in Wuxiang New District, Nanning, Guangxi Province. The project occupies a total site area of 231,563 sq.m. and was a total GFA of approximately 1,212,000 sq.m. We commenced the project in August 2014. As of December 31, 2018, the entire project with a total of 65 towers were completed. As of December 31, 2018, we achieved contracted sales of approximately RMB4.62 billion (total saleable GFA of approximately 668,000 sq.m.). In addition, an aggregated saleable GFA of approximately 495,000 sq.m. has been delivered and the remaining will be delivered in 2019, including the resettlement housing to original land occupants for which sale proceeds totaling RMB0.99 billion have been received from district government.

### ***Skyfame Nanning ASEAN Maker Town (“天譽南寧東盟創客城”)***

Skyfame Nanning ASEAN Maker Town is a residential and commercial property project located in Wuxiang New District (五象新區), Nanning. This project occupies a total site area of 194,221 sq.m. with a planned GFA of approximately 1,319,000 sq.m. and is planned a residential and commercial complex, which are divided into east and west zones. The east zone consists of A-class offices, retail properties, serviced apartments, retail properties, and ancillary facilities for youngsters named as “the World of Mr. Fish” (“魚先生的世界”). The east zone also includes an international 5-star hotel, the Westin Nanning, in the Skyfame ASEAN Tower (“天譽東盟塔”) with a height of 346 meters. The west zone consists of residential and retail properties named as “Skyfame Byland” (“天譽半島”). We commenced the construction in November 2015 and the construction is expected to be completed between 2018 and 2024. As of December 31, 2018, residential and commercial units of saleable GFA of approximately 634,000 sq.m. are on presale, for which sales of approximately RMB6.92 billion (total saleable GFA of approximately 625,000 sq.m.) have been recorded.

Skyfame Nanning ASEAN Maker Town together with Nanning Skyfame Garden project were branded as “Nanning Skyfame City” (“南寧天譽城”).

### ***Nanning Impression of Sandawood (“南寧檀府•印象”)***

The Group entered into a joint venture arrangement with two local developers for the project, and we holds 40% equity interest in the joint venture company. The land was newly acquired by the joint venture company in December 2017. The project is located in the core area of Wuxiang New Zone at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning. The project is expected to occupy a site area of 137,881 sq.m. with a planned GFA of approximately 764,000 sq.m. In June 2018, we obtained the land use rights certificate for this project. The project will include residential and commercial properties for sale, properties for resettlement of original occupants, a primary school and municipal facilities. Construction works commenced in April 2018 and are expected to complete in phases by 2022. The first pre-sale was launched in September 2018. As of December 31, 2018, we achieved contracted sales of approximately RMB1.29 billion with a saleable GFA of 110,000 sq.m..

### ***Xuzhou Skyfame Time City (“徐州天譽時代城”)***

Xuzhou Skyfame Time City is expected to be a residential property project located at the Xuzhou Quanshan Jiangsu Economic Development Zone, Xuzhou, Jiangsu Province. The project occupies a total site area of 172,764 sq.m. with an planned GFA of approximately 468,000 sq.m. We commenced the construction in March 2017 with three planned phases, which are all expected to be completed by 2020. We launched the pre-sale for phrase 1 in July 2017. As of December 31, 2018, an approximately 322,000 sq.m. of residential and retail units are on presale, and we have achieved contracted sales of approximately RMB2.03 billion with a total saleable GFA of approximately 303,000 sq.m..

### ***Xuzhou Skyfame Elegance Garden (“徐州天譽雅園”)***

Xuzhou Skyfame Elegance Garden is expected to be a residential and commercial property project located in Xuzhou. The project occupies a total site area of 73,823 sq.m. The total planned GFA is approximately 205,000 sq.m. Construction works commenced in December 2018 and are expected to complete in 2022. We expect to pre-sale the project in mid 2019.

### ***Chongqing Project (“重慶項目”)***

Chongqing Project is a residential and commercial project located in Nan’an District of Chongqing, which is one of three central business districts in Chongqing. The project is in the core financial zone, with scenery along the riverside. This project occupies a total site area of 219,336 sq.m. and the total planned GFA is approximately 1.2 million sq.m. The project will be developed in two phases.

Phase 1 of the project, “Gold Purple” (“紫金一品”), commenced construction in 2015 and was completed in early 2018. The total planned GFA and saleable GFA are approximately 313,000 sq.m. and 256,000 sq.m., respectively. As of December 31, 2018, we achieved contracted sales of RMB1.75 billion (saleable GFA of 172,000 sq.m.) and saleable GFA of approximately 163,000 sq.m. have been delivered. The remaining inventories are residential, apartments, offices and retail properties of approximately 55,000 sq.m. and 2,000 car parking spaces.

Phase 2 of the project, “Chongqing Skyfame • Smart City” (“重慶天譽•智慧城”), is consisted of residential properties, loft apartments and retail properties in the total GFA of 866,000 sq.m. Part of the project with GFA of approximately 249,000 sq.m. will be developed as investment properties, while the rest will be for sale. Construction works have commenced in the second quarter of 2018 and pre-sale has been commenced in late of 2018. As of December 31, 2018, we have achieved contracted sales of RMB1.0 billion with a saleable GFA of 69,000 sq.m..

### ***Kunming Anning Linxi Valley (“昆明安寧林溪谷”)***

In September 2018, the Group obtained the development right of the project through contractual arrangement. The project occupies a total site area of 190,836 sq.m. with a planned GFA of approximately 296,000 sq.m. (saleable GFA of 253,000 sq.m.). The project will be developed into villa, residential and ancillary commercial properties. Construction works commenced in November 2018. We expect to commence pre-sale of the project in 2019.

### ***Shenzhen Dachitdat Project (“深圳大捷達項目”)***

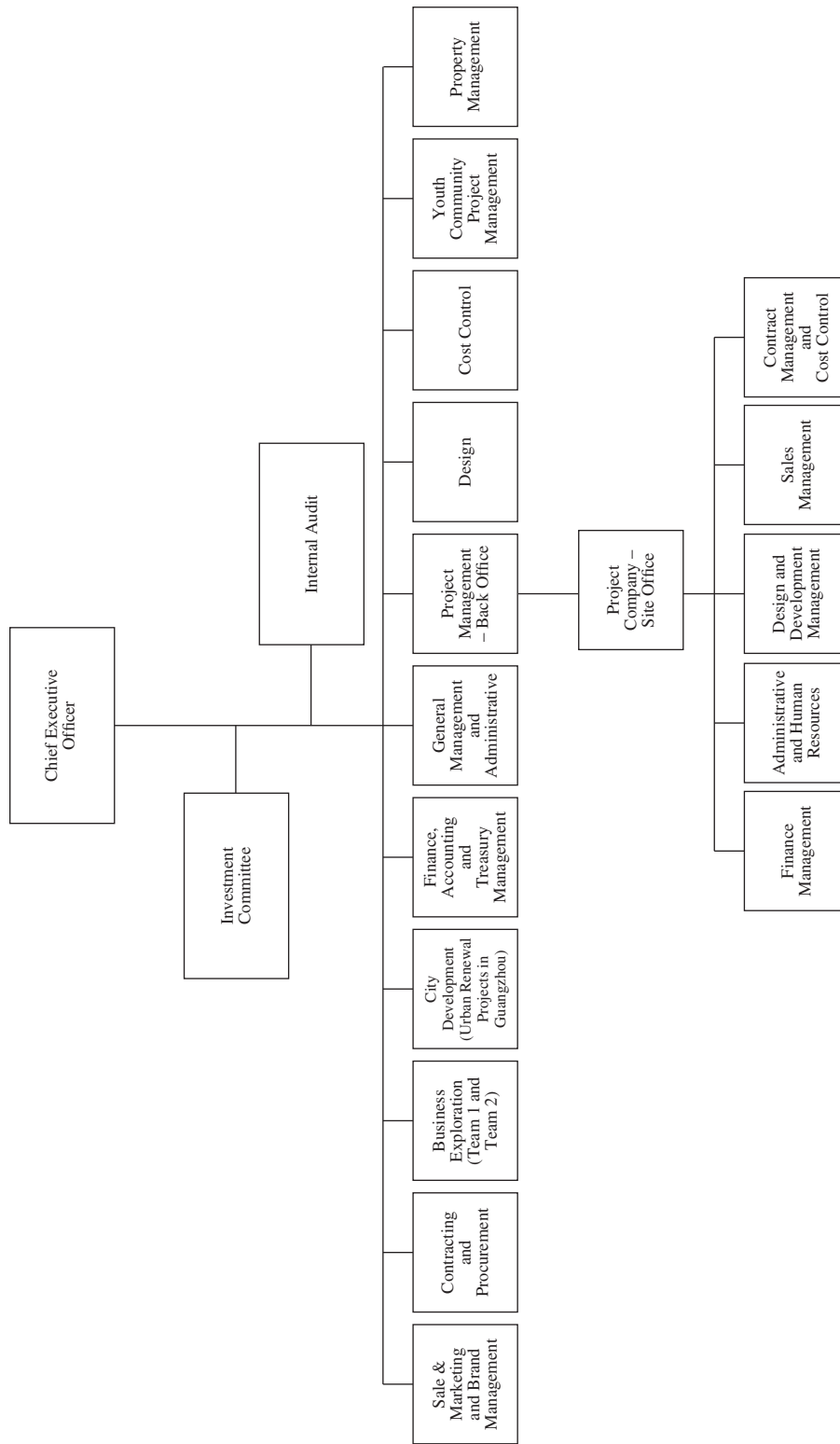
Shenzhen Dachitdat Project is located in Dachitdat Industrial Zone, Guangming District, Shenzhen, Guangdong Province and expected to be comprised of serviced apartments and offices. The project occupies a total site area of 23,600 sq.m. The project is part of an old district remodelling program, and existing properties on the respective land parcel are under offices demolition. The project has a planned GFA of 142,000 sq.m. We plan to construct innovative offices and serviced apartment. The re-development right has been obtained on March 22, 2019. Construction will be commenced once the planning and construction permits have been granted and is expected to take place in the later months of 2019.

### ***Guangzhou Luogang Project (“廣州羅岡項目”)***

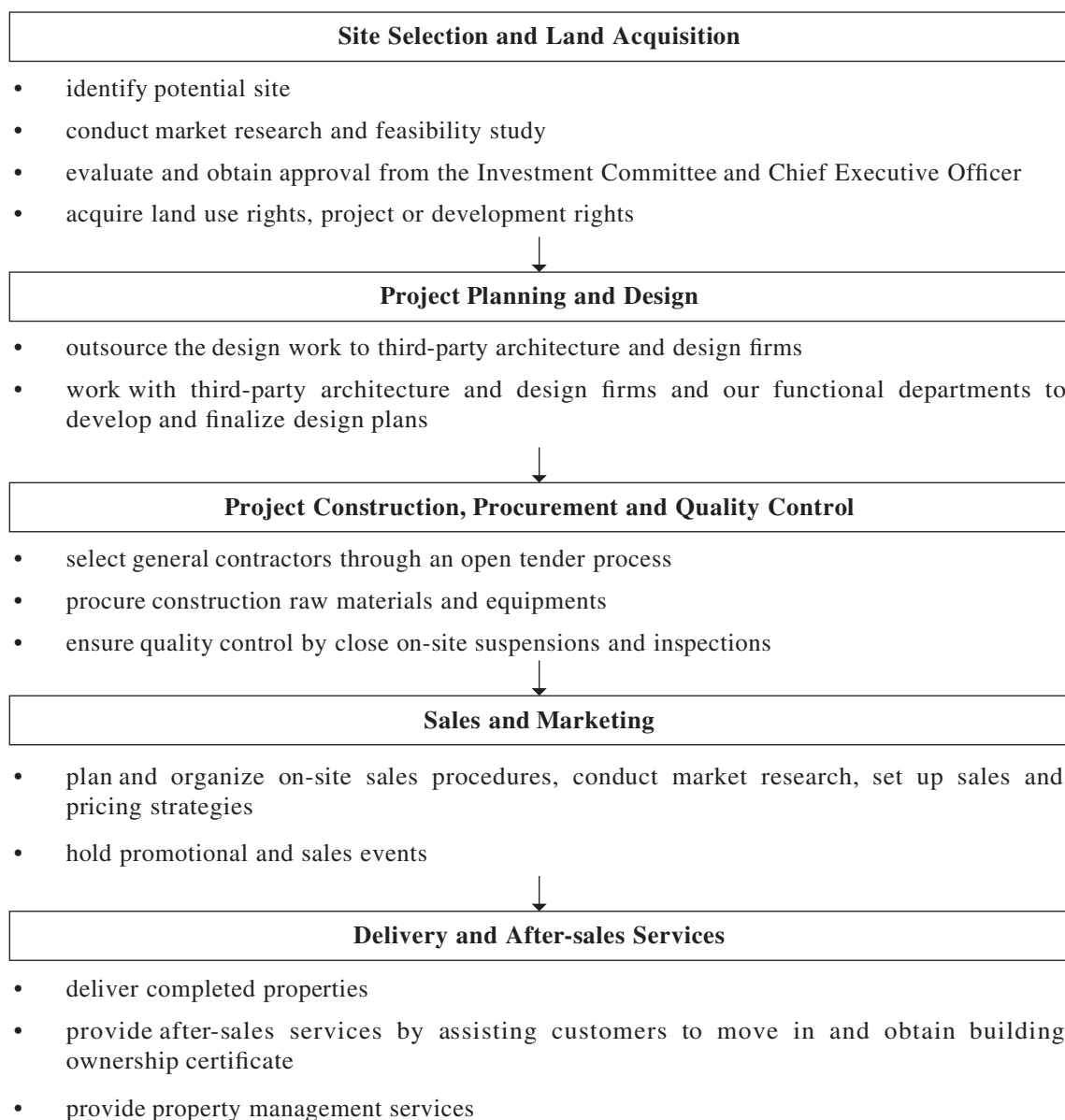
Guangzhou Luogang Project is located on Yin Tong Road, Yonghe District, Guangzhou, Guangdong Province and expected to be comprised of serviced apartments and commercial properties. This project is expected to occupy a site area of 50,263 sq.m. with a planned aggregate GFA of approximately 122,000 sq.m. Commencement of construction is pending the obtaining of government approval for the conversion of the land use from industrial to commercial. Negotiations with the local government have been in progress. As of December 31, 2018, we had not obtained the land use rights certificate for commercial use for this project.

## Our Property Development Management

The following chart sets forth our management and reporting structure of our Group as of the date of this offering memorandum:



The diagram below summarizes the major stages of our property development process.



### ***Site selection***

We place a strong emphasis on selecting suitable locations for our projects. We focus on locations with good business potentials, such as Guangzhou, Shenzhen and Zhongshan in the Greater Bay Area, Nanning, Guilin and Chongqing in the Southwestern Region, and Xuzhou in the Huaihai Economic Zone in the PRC.

We select sites primarily through investigating and evaluating the economic and demographic conditions of a city. Our site selection process is led by our dedicated site selection team in our business exploration department consisting of key members of our senior management, who are responsible for identifying a potential project, conducting market research and performing preliminary screening.

We prudently carry out the site selection process in all projects with a strong focus on the quality. The factors we consider in assessing whether a site is suitable for development include, but are not limited to:

- scale and price of the land;
- prospects of the city's development;

- the potential for value appreciation;
- transportation infrastructure;
- the economic environment and the physical and geological characteristics of the site;
- historical features and natural resources;
- local zoning regulations; and
- the central and local governments' industry policy and development strategies.

### ***Land acquisition***

In 2016, 2017 and 2018, we obtained our land reserves through the following methods:

- participating in government-organized tenders, auctions and listings-for-sale;
- cooperating with third-party property developers to jointly acquire and develop a project;
- acquiring equity interest from third-party property developers that have entered into land grant contracts with local governments or holders of land use rights; and
- cooperating with representatives of villagers, and original occupants or relevant government agencies in the projects involving urban renewal program in regions in key cities, especially in Guangzhou.

We primarily acquire land through tenders, auctions and listings-for-sale from the PRC government in accordance with relevant PRC laws and regulations. For further details of the applicable PRC laws and regulations relating to land acquisition, see “Regulations – Development of Real Estate Projects.”

### ***Project design***

In order to provide our customers with distinctive designs and to achieve operations efficiency, we outsource the design of all of our property development projects to third-party domestic or international architecture and design firms. Our design department in Guangzhou head office consists of approximately 18 employees, who are mainly responsible for preliminary pre-planning project design, drawing up design plans of architectural images, interior and landscapes. Our design department is also responsible for selecting such third-party partners, taking into consideration their reputation, proposed designs, service standard, design quality and their past relationship with us. From time to time, we also engage in a well-established tender process for service providers in which the architecture and design firms submit proposals which we determine whether the submitted proposals can be translated into commercially viable projects. Our design department supervises and provides the third-party architecture and design firms with directions and design criteria on which we aim to market our property development projects. In addition, our design department works closely with the architecture and design firms in major aspects of the design process, from master planning, design specifications and adjustments, raw material selection, to ensuring that the designs are in compliance with local regulations. We adopt a design management program whereby upon receiving design schemes from the outside architecture and design firms, our design department is responsible for organizing discussions and review meetings with our functional departments and communicating with our construction contractors to ensure that the design elements are effected as we expect. Our design department closely monitors the work of the architecture and design firms to ensure that the project designs meet our specifications and works together with our project managers, our project management department and senior management to ensure that any problems encountered with the proposed design during construction are resolved in a timely manner and to maintain the quality of construction works and cost control.



## *Construction and procurement*

### *Project Management*

For each of our regional offices in charge of the daily operation of the projects under development, we maintain a project management team consisting of engineers, technicians and supporting staff of a size variable to the scales of the projects. These employees are deployed on site and are responsible for communicating with our construction contractors and specialized contractors and performing quality inspection and control.

### *Appointment of Construction Contractors*

We do not maintain a construction capacity and outsource construction works of all our property development projects to qualified third-party main construction contractors. Such construction works include, among other things, foundation digging, general construction and installation of equipment. The main contractors of our property developments are selected through an open tender process. The tender process is managed by the cost management center of our headquarters and the respective project companies. We conduct due diligence procedures on our potential contractors, such as inspecting their credentials and on-site supervision on their offices and property projects, and only those contractors who have passed such due diligence procedures are invited to participate in the tender. In selecting the winning bid, we typically consider the contractors' professional qualifications, technical capabilities, industry reputation, track record and prices tendered. We also involve in the work of specialized contractors in specific areas, such as landscaping, glass wall panel installations, night lighting system installations and smart key entrance security control system. The specialized contractors are typically selected through a tender process and will typically enter into contracts with us. In 2016, 2017 and 2018, we had engaged and maintained stable business relationships with a number of main construction contractors and specialized contractors.

We are not responsible for any labor issues of our contractors or accidents and injuries that may occur during construction. These risks are borne by the contractors, as provided in our contracts with them. However, our strict quality control measures require our contractors to comply with the relevant rules and regulations including environmental, labor, social and safety regulations to minimize our risks and liabilities. In 2016, 2017 and 2018, our contractors were not involved in any dispute with the Group nor cases of material personal injury or death that had a material and adverse effect on our business. Under typical agreements with our contractors, we make payments to contractors in stages according to the progress of construction works. The percentage of each stage payment varies from project to project according to the terms stipulated in the relevant contracts. Our contracts with contractors typically provide for the retention of a certain percentage of the total payment as quality assurance. Depending on the type of construction works involved, such retention amount is released to the contractor upon the expiry of the relevant quality assurance period, which is generally two years.

### *Procurement*

Our procurement activities fall into two categories: construction raw materials and equipment. Our construction contractors are responsible for procuring raw materials, notably steel and concrete. With respect to construction contracts of substantial value and of a long duration, we typically engage in discussions with our contractors and adjust construction fees if fluctuations in the market prices of such commodities exceed a certain threshold (typically 3% to 5%), and we, as a result, may or may not bear risks associated with such commodity price movements as we will share the risks in price fluctuations depending on cases. In 2016, 2017 and 2018, fluctuations in the price of construction raw materials exceeding the relevant materiality threshold in the relevant contracts had been finalized with our construction contractors and any overruns have been mutually agreed and settled with our construction contractors. Nonetheless, as we typically pre-sell our properties prior to their completion, we will not be able to pass the increased costs to our customers if construction costs increase subsequent to the pre-sale. We generally procure equipment according to strategic cooperation agreements with suppliers. As the purchase prices have been pre-determined and are fixed in a long term, the fluctuation of market prices of relevant equipment will not adversely affect our business and financial performance.

### ***Quality control and project management***

We place significant emphasis on quality control in the management of our projects. As of December 31, 2018, we had a team of 69 employees with an average of 12 years of experience in the project management and supervision of contractors' works. The following are certain important measures or procedures we have adopted in furtherance of this goal:

- we ask our construction contractors to first implement its own internal control measures followed by inspections of our project management team, reviews by our regional project quality control team and a quarterly assessment at the Group level; also, our headquarters conducts an internal audit at least annually to identify potential issues and promote measures and initiatives that have proven to be successful in certain projects;
- we perform routine inspections on raw materials when they are delivered, reject materials which are below standard or that do not comply with our specifications and return them to the contractors or suppliers;
- we retain qualified independent third-party professional firms as well as the quality supervision units of the relevant local government authorities to oversee and supervise the overall construction of our projects;
- we assign each project its own on-site project management team, which comprises qualified engineers led by our project managers to ensure quality and monitor the progress and workmanship of construction;
- we compile a set of standardized technical guidelines for construction management of each project; and
- we carry out quality control in accordance with the relevant laws, regulations, and other compulsory standards promulgated by the relevant PRC governmental authorities and other industry associations.

### ***Sales and marketing***

#### ***Sales and Marketing Plan***

Our internal sales department is responsible for managing our sales and marketing functions. As of December 31, 2018, our sales and marketing team comprised over 14 employees, all of whom receive regular training from time to time. Our sales managers and our marketing managers cooperate closely to determine appropriate advertising and sales plans for a particular property development. They also work together to plan and organize efficient and orderly on-site sales procedures, conduct market research, design sales and pricing strategies, arrange promotional activities and collect customer data and comments. They also prepare feasibility studies based on market analysis.

As part of our sales and marketing strategy, we advertise in newspapers, magazines and through outdoor advertising boards or organized promotional events. We also utilize short messaging services, or SMS, and participate in real estate exhibitions to promote our products. We also offer discounts to group customers.

The sales and marketing teams of our project companies study local market information and formulate pre-marketing, sales and pricing plans and procedures for approval by the sales and marketing center of our headquarters. We determine our per unit sales price with reference to the sales price of market comparables, market conditions and our development costs. Our sales and marketing personnel are incentivized by performance-based compensation packages. Throughout and subsequent to the project development and pre-sale period, we provide comprehensive assistance to our customers, coordinate internally to address queries raised by, and collect feedback from, our customers and potential customers for us to evaluate our products and devise modifications to designs of our future properties as appropriate to address any change in market demand.

Our promotion channels primarily include advertising through newspapers, television, radio, internet, billboards, magazines and mobile phone text messages. We generally engage professional property sales agencies and advertising design agencies in China to assist us in our sales campaigns. We hold promotional and sales events at our property development project premises and invite potential customers to visit exhibit units. Customers of some of our property development projects are entitled to referral bonuses.

#### *Pre-sale*

In line with market practice in the PRC, we normally commence pre-sales of our property development project before completion of the entire project. Our pre-sales typically are progressive with construction and in accordance with our marketing strategies and plans. Relevant PRC laws and regulations require property developers to fulfill certain conditions, including but not limited to payment of the land grant premium and obtaining the relevant land use rights certificate, construction works planning permit, construction works commencement permit and pre-sale permit before the commencement of pre-sales. See “Regulations – Development of Real Estate Projects” for further details of the laws and regulations governing pre-sale. We generally time the launch of our pre-sale campaigns according to the progress of construction, market conditions and in hot sales seasons. Once a project is substantially sold out, we re-deploy our sales staff to other projects.

Our pre-sale contracts are prepared in accordance with applicable PRC laws and regulations. Purchasers are typically required to make a down-payment according to the schedule stipulated in the sales contract. The amount of down-payment to be paid and the circumstances in which deposits may be forfeited are stipulated in relevant pre-sales contracts. In accordance with the requirements of applicable PRC laws and regulations, we register such pre-sale with the relevant local authorities and provide warranties on the quality of properties we construct or sell to our customers for periods no shorter than the period of quality warranties we receive from our construction contractors under the relevant construction contracts, being generally one to five years. See “Risk Factors – Risks Relating to Our Industry – We are exposed to contractual and legal risks related to pre-sales, which could have a material adverse effect on our business, financial condition and result of operations” for further details regarding the associated risks.

### **COMPETITION**

The PRC real estate industry is highly fragmented and competitive. As a real estate developer in China, we primarily compete with other Chinese real estate developers focusing on the development of commercial and residential properties in the PRC. We compete in many aspects, including product quality, service quality, price, financial resources, brand recognition, ability to acquire land and other factors. In recent years, an increasing number of property developers from the PRC and overseas have entered the property development markets in the cities where we have operations, resulting in increased competition for land available for development. Moreover, the PRC government has implemented a series of policies to control the growth and curtail the overheating of, and foreign investment in, the PRC property sector. We believe major entry barriers into the PRC property development industry include a potential entrant’s limited knowledge of local property market conditions and limited brand recognition in these markets. We believe that the PRC real estate industry still has large growth potential. We believe that, with our solid experience in real estate development, our strategic focus on development of youth community residential projects and the provision of services to support the living and entrepreneurial development of young home buyers in China, our reputable brand name and our effective management team, we are able to respond promptly and effectively to challenges in the PRC property market.

### **PROPERTY INVESTMENT**

As of December 31, 2018, we leased properties with an aggregate total GFA of approximately 38,000 sq.m. to operators of business center, offices, car parking spaces and serviced apartments. When entering into leasing agreements, we scrutinized the backgrounds of the lessees to ensure they are financially sound and reputable in business. The duration of the leases of these properties was typically two years to 20 years.

In additions, properties under development in phase two of Chongqing Project with GFA of 248,800 sq.m. are to be built into serviced apartments for long-term investment purpose as a condition of the land transfer contract. The long-term held properties, currently under development, will become part of an integrated complex which will be completed in 2023 in a central business district at the Southern Shore District of Chongqing.

## PROPERTY MANAGEMENT

We currently provide property management services to properties developed by us or by companies affiliated with our controlling shareholder prior to his taking over the control of the Company. As of December 31, 2018, we provided property management services to properties with a total GFA of approximately 1,601,000 sq.m.. Our property management services are provided by Guangzhou Tianyu Property Management Company Limited (廣州市天譽物業管理有限公司).

## OPERATIONS OF YOUTH COMMUNITY PROJECTS

We now have a team of dedicated staff to youth community projects business. We are building up a brand name in the development of youth community projects which are designed to serve the needs of young home buyers and the young entrepreneurs. We collaborate with renowned education and healthcare providers to provide a convenient access of schools and hospitals. For example, we are building a hospital within walking distance of our projects in Nanning. We aim to liaise with experienced healthcare provider to offer high quality medical care for the community.

Our youth community projects also provide co-work space for start-up enterprises. Our first co-work space in Guangzhou is located in Tianyu Garden II and occupies approximately 2,000 sq.m. We also opened the second co-work space in Nanning Skyfame Garden with approximately 2,000 sq.m. In 2018, we achieved an occupancy rate of 79% and generated revenue of RMB8.4 million from our co-work space operations. In addition to renting our co-work spaces, we also invest in selected start-ups. All these commercial operations are not only an ancillary business line to our youth community developments for young buyers, but will become an income driver to the Group in the near future as and when increasing number of youth community projects are completed and put into use.

## INSURANCE

We maintain different types of insurance policies to cover our operations, including comprehensive asset insurance, public safety liability insurance, automobile liability insurance and construction all risks insurance. We do not carry, however, insurance in respect of certain risks that we believe are not insured under normal industry practice in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war and civil disorder.

## EMPLOYEES

As of December 31, 2018, we had 940 full-time employees. The following table sets forth the breakdown of our employees by function:

<b>Employee Function</b>	<b>Number of Employees</b>
Sale Marketing and Brand Management .....	14
Contracting and Procurement.....	9
Investment and Business Development .....	14
Finance, Accounting and Treasury Management.....	17
General Management and Administrative .....	76
Design.....	17
Cost Control .....	12
Commercial Operations.....	16
Property Management .....	546
Project Management – back office.....	17
Project Management – site office .....	202
<b>Total</b> .....	<b>940</b>

We recruit and promote individuals based on merit and their development potentials. The remuneration package inclusive of bonus and share option scheme offered to all employees, including directors, is determined with reference to their performance and the prevailing salary levels in the market.

We train our staff at all levels through orientation training and subsequent continuous on-the-job skills development training. We have developed various professional training courses and materials and arranged external trainers to enhance the quality of training.

## INTELLECTUAL PROPERTY RIGHTS

We conduct our business and marketing primarily under our “Skyfame,” “天譽,” “Mr. Fish’s Community” and “Mr. Fish” brand names. As of December 31, 2018, Skyfame Realty (Holdings) Limited had registered three trademarks listed as below in China:



Guangzhou Yucheng Development Company Limited (廣州譽城房地產開發有限公司) had registered the trademark listed as below in China.



As of December 31, 2018, we had also registered two domain names with Internet Corporation for Assigned Names and Numbers.

As of December 31, 2018, we had not encountered any material third-party intellectual property infringement claims.

## LEGAL PROCEEDINGS

From time to time, we may be involved in various legal proceedings, claims and administrative penalties that arise in the ordinary course of business. As of the date of this offering memorandum, except as stated in this offering memorandum, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us.

## **REGULATORY OVERVIEW**

This section summarizes the principal PRC laws and regulations that are relevant to our business and operations. These include the laws and regulations relating to our real estate development, investment and management businesses in the PRC and other relevant laws and regulations. As this is a summary, it does not contain a detailed analysis of the PRC laws that are relevant to our business and operations.

### **THE PRC LEGAL SYSTEM**

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

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

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

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

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

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

## THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organized into civil, criminal, economic, administrative and other divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervises the basic and intermediate courts. The People's Procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

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

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法), which was adopted on April 9, 1991 and amended on October 28, 2007, August 31, 2012 and June 27, 2017, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence or the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by the opposing party, mandatorily enforce the judgment.

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

## **ESTABLISHMENT OF A REAL ESTATE DEVELOPER**

### **General Regulations**

The laws and regulations that permit the existence and investment in real estate development in China are the basis for our establishment and continued expansion in China.

According to the Law on Administration of Urban Real Estate of the PRC (中華人民共和國城市房地產管理法, the “Urban Real Estate Law”) promulgated by the Standing Committee of NPC on July 5, 1994, becoming effective in January 1995, and amended in August 2007 and August 2009 respectively, real estate development refers to the act of constructing infrastructure and buildings on state-owned land, the land use rights of which have been legally acquired; and a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the Administrative Regulations on Urban Real Estate Development and Operation (城市房地產開發經營管理條例, the “Development and Operation Regulations”) promulgated by the State Council on July 20, 1998 and revised on January 8, 2011 and March 24, 2019, an enterprise which is to engage in the development of real estate shall satisfy the following requirements:

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

According to the Development and Operation Regulations, the People’s Government of a province, autonomous region or municipality directly under the Central Government may, based on local circumstances, impose more stringent requirements than the preceding clauses over the registered capital and professional technicians of a real estate developer.

According to the Development and Operation Regulations, to establish a real estate developer, an application for registration shall be submitted to the administration for industry and commerce. The real estate developer shall also file its establishment with the competent authority of real estate development in the location of its registration within 30 days upon obtaining its business license. Establishment of a foreign-invested enterprise engaging in real estate development and sale shall also go through the relevant review and approval procedures in accordance with the PRC laws and regulations on foreign-invested enterprises.

In May 2009, the State Council issued the Circular on Adjusting the Proportion of Capital Fund in Fixed Asset Investment Projects (關於調整固定資產投資項目資本金比例的通知) to reduce such proportion to 20% for ordinary commodity housing projects (普通商品住房項目) and indemnificatory housing projects (保障性住房專案) and 30% for other real estate development projects.

### **QUALIFICATIONS OF A REAL ESTATE DEVELOPMENT ENTERPRISE**

Under the Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) promulgated by the State Council on July 20, 1998 and revised on January 8, 2011 and March 24, 2019, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

Under the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), or the Provisions on Administration of Qualifications, promulgated by Ministry of Construction and implemented on March 29, 2000 and revised on May 4, 2015 and December 13, 2018, a real estate development enterprise must apply for registration of its qualification according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale



of properties without a qualification classification certificate for real estate development. Ministry of Construction oversees the qualifications of real estate developers with national operations, and local Ministry of Construction authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, the qualification of a real estate development enterprise is classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualifications should be examined and approved by corresponding authorities.

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

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

For a newly established real estate developer, the competent authorities will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year since its issuance, and MOHURD authorities may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The real estate developer should apply for qualification of classification to the relevant authorities within one month before expiration of its provisional qualification certificate.

Pursuant to the Provisions on Administration of Qualifications, the qualification of a real estate developer should be subject to annual inspection. The construction authority under the State Council or its entrusted institution is responsible for carrying out the annual inspection of the qualification of class 1 real estate developers. Procedures for annual inspection of developers of class 2 or lower qualifications shall be formulated by the construction authorities under the people's government of the relevant province, autonomous region or provincial-level municipality.

## **DEVELOPMENT OF REAL ESTATE PROJECTS**

### **Land for Real Estate Development**

Although all land in the PRC is owned by the state or is collectively owned, individuals and entities may obtain land use rights and hold such land use rights for development purposes.

On April 12, 1988, NPC amended the Constitution, permitting the legal transfer of land use right. On December 29, 1988, April 29, 1998 and August 28, 2004, the Standing Committee of NPC amended the "Land Administration Law of the PRC" (中華人民共和國土地管理法), permitting the legal transfer of land use right.

Under the Interim Regulations on Grant and Assignment of the State-owned Urban Land Use Right of the PRC (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), the “Interim Regulations on Grant and Assignment”) promulgated by the State Council on May 19, 1990, China adopts a system of granting and assigning state-owned land use right. A land user shall pay a land premium to the State as the consideration for the grant of the land use right by the State for a specified period of time, during which the land user may assign, lease, mortgage or otherwise commercially exploit the land use right. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authorities at city or county level shall enter into a land grant contract with the land user to grant land use right. The land user shall pay the land premium as stipulated by the land grant contract. After paying the land premium in full, the land user may register with the land administration authorities and obtain a land use rights certificate evidencing the acquisition of land use right.

The Urban Real Estate Law and the Development and Operation Regulations provide that the land use right of land for real estate development must be obtained through grant, except for land use rights which may be obtained through premium-free allocation pursuant to the provisions of the PRC laws or the administrative regulations of the State Council.

On September 24, 2003, Ministry of Land and Resources promulgated the Circular on Strengthening Land Supply Management and Promoting the Sustainable Sound Development of the Real Estate Market (關於加強土地供應管理促進房地產市場持續健康發展的通知), amended on December 3, 2010, which provides that land supply for high-class commodity housing shall be strictly controlled.

On August 31, 2006, the State Council promulgated the Circular on Strengthening Land Control (關於加強土地調控有關問題的通知). The circular requires to establish a system for uniformly publicizing the minimum rate standards of industrial land grant to uniformly formulate and publicize the minimum rate standards of industrial land grant in all localities. The minimum rate standards of industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required. The industrial land must be transferred by way of tender, auction or listing at a price not less than the minimum rates as publicized.

Under the Rules Regarding the Grant of State-Owned Land Use Right By Way of Tender, Auction and Listing (招標拍賣掛牌出讓國有土地使用權規定) which was promulgated by Ministry of Land and Resources on May 9, 2002 and implemented from July 1, 2002, whose name altered to Rules on the Assignment of the State-owned Land Use Right by Means of Bid Tendering, Auction and Quotation (for Trial Implementation) (招標拍賣掛牌出讓國有土地使用權規範(試行)) on May 31, 2006, land for operational purposes, such as business, tourism, entertainment and commercial residential housing, shall be granted through tender, auction or listing. On September 28, 2007, Ministry of Land and Resources promulgated the Rules Regarding the Grant of Right to Use State-Owned Construction Land By Way of Tender, Auction and Listing (招標拍賣掛牌出讓國有建設用地使用權規定), which were effective from November 1, 2007. The Rules further clarify the procedures for the grant of land use right by way of tender, auction and listing. Moreover, pursuant to the Rules, land for operational purposes such as industry (including warehouse land, but excluding mining land), business, tourism, entertainment and commercial residential housing, and a land parcel with two or more potential users must be granted by way of tender, auction or listing. The grantee of land use right may only have the land registered and obtain the land use rights certificate after full settlement of the land premium as specified in the relevant land grant contract. No land use rights certificate shall be issued before full settlement of the land premium or in proportion to the land premium paid.

On September 30, 2007, Ministry of Land and Resources issued the Circular on Implementation of the State Council’s Certain Opinions on Resolving Housing Difficulties of Urban Low Income Families by Further Strengthening Control of Land Supply (關於認真貫徹《國務院關於解決城市低收入家庭住房困難的若干意見》進一步加強土地供應調控的通知) which was amended on December 3, 2010 to further enhance the control of land supply. The circular provides that the annual total supply of the land to be developed for low-rent housing, affordable housing and ordinary commodity housing at low-to-medium price and of small-to-medium size must be not less than 70% of the total supply of land for residential housing; the land and resources authorities shall reasonably control the size of each land parcel, shorten

the development cycle of the land (the development and construction period of each land parcel shall be no longer than three years in principle) and increase the total amount of land supply, in order to prevent “land enclosure” in large scale by real estate developers. Real estate enterprises which fail to commence and complete construction according to the terms of the relevant land grant contract and rectify the situation within the specified period are prohibited from purchasing new land by tender, auction or listing.

On January 3, 2008, the State Council issued the Circular on Promoting the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which provides that for land currently used for industrial purpose, under the precondition that it accords with the relevant planning and that the use of land is not changed, if the land utilization ratio and the plot ratio are increased, no additional land fee should be collected. For newly added land for industrial purpose, control indicators should be further enhanced and no additional land fee should be collected for any part that the GFA of a plant exceeds the control indicators for the plot ratio of such plant. The land user and land fee for land used for industrial and operational purposes must be determined by way of tender, auction or listing.

On May 11, 2009, Ministry of Land and Resources issued the Circular on Adjusting the Minimum Rate Standards for Industrial Land Grant (關於調整工業用地出讓最低價標準實施政策的通知).

According to the Circular, for industrial projects which fall within the category of priority industries of the provinces (districts/cities) with an intensive use of land, the base price for land grant may be determined at a level of not less than 70% of the price standard for the class of land where they locate. The base price for industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required.

On August 10, 2009, Ministry of Land and Resources and the Ministry of Supervision of the PRC promulgated the Circular on Further Implementing the Industrial Land Grant System (關於進一步落實工業用地出讓制度的通知). The circular provides that the industrial land shall be granted through tender, auction or listing. During the industrial land grant period, the grantee may increase the plot ratio without paying any additional land premium upon approval, provided that such increase conforms with the plan and that the use of land is not changed.

MOF, Ministry of Land and Resources, PBOC, the Ministry of Supervision of the PRC and the National Audit Office of the PRC issued the Circular on Further Tightening Control over Income and Expenses of Land Grant (關於進一步加強土地出讓收支管理的通知) on November 18, 2009. According to the circular, the term of payment by installment for land premium as stipulated in the land grant contract shall not exceed one year in principle or, in the case of special projects, the payment shall be fully settled within two years as collectively decided by local land grant coordination and decision-making authorities. The down payment shall not be less than 50% of the land premium.

On March 8, 2010, Ministry of Land and Resources promulgated the Circular Concerning Issues on Strengthening Real Estate Land Supply and Supervision (關於加強房地產用地供應和監管有關問題的通知) to strictly regulate the grant of land for commodity housing. According to the circular,

- the supply of land for affordable housing, rebuilt shanty areas and small-to-medium sized self-occupied commodity housing shall not be less than 70% of the total land supply for residential housing construction. Land supply for large-sized residential housing construction shall be strictly controlled, and land supply for villas shall be suspended.
- the area of a single land parcel granted for commodity housing shall be strictly controlled.
- the minimum price of land grant shall not be less than 70% of the benchmark price of the class where the land parcel being granted is located, and the bidding deposit shall not be less than 20% of the minimum grant price.
- after a land grant deal is closed, a land grant contract shall be signed within 10 working days therefrom.

- the first installment, which is 50% of the grant price, shall be paid within one month after signing the contract, while the remaining payment shall be made in time in accordance with the contract, which shall not be later than one year.

On September 21, 2010, Ministry of Land and Resources and MOHURD jointly released the Circular on Further Strengthening Administration and Control over Land Utilization and Construction of Real Estate (關於進一步加強房地產用地和建設管理調控的通知) to tighten the examination of qualifications of land bidders. The circular specifies that when a bidder takes part in the bidding, auction or listing of the granted land, the competent department of land and resources shall, in addition to requiring effective certificate of identity and payment of the tender (bid) deposit, require an undertaking letter stating that the tender (bid) deposit is not sourced from any bank loan, shareholders' borrowing, on-lending or fund-raising as well as a credit certificate issued by a commercial financial institution. Where a bidder is found to have violated the laws, regulations or contracts as follows, the competent department of land and resources shall forbid the bidder and his controlling shareholders from participating in land bidding activities: (1) committing crimes, such as forgery of instruments with an aim of obtaining the land by deception and illegal re-sale of the land; (2) conducting illegal activities, such as illegal transfer of land use right; (3) leaving the land idle for more than one year for developer's own reasons; (4) where the development and construction enterprise develops and utilizes the land in violation of the conditions stipulated in the grant contract. Besides, the grant of two or more bundled land parcels or uncleared lands is prohibited.

On December 19, 2010, Ministry of Land and Resources issued the Circular on Issues Concerning Strict Implementation of Real Estate Land Control Policies and Promotion of Healthy Development of the Land Market (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知). According to the circular, where a bidder and his controlling shareholders are found to act in violation of relevant laws, regulations and contracts, such as forging instruments with an aim of obtaining the land by deception, illegally reselling the land, illegally transferring land use right, leaving the land idle for more than one year for developer's own reason and developing and utilizing the land in violation of the conditions stipulated in grant contracts, they shall not pass the bidding qualification examination. Arbitrary adjustment of the plot ratio shall be stopped firmly. Where plot ratio adjustment is approved in line with relevant laws, the competent departments of land and resources at city or county level shall determine the land premium differences to be paid on the basis of the land value in terms of per unit floorage in the land market at the time when the adjustments are approved.

On May 13, 2011, Ministry of Land and Resources issued the Opinions on Maintaining and Improving the System for the Grant of Land by way of Tender, 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). According to the opinions, on the basis of determining the base price of land grant in accordance with the law, factors affecting the development and utilization of land, such as land price and time of payment, development and construction cycle, construction requirements, degree of economical and intensive use of land and performance of previous grant contracts by the enterprises, shall be taken as bid evaluation conditions.

## **Use of Land**

On May 23, 2012, Ministry of Land and Resources and NDRC jointly issued the Catalogue of Restricted Use of Land (2012 Version) (限制用地項目目錄(2012年本)) and the Catalogue of Prohibited Use of Land (2012 Version) (禁止用地項目目錄(2012年本)). According to the above catalogues, the area of a parcel of land granted for residential project shall be no more than 7 hectares in small cities and designated towns, 14 hectares in medium cities or 20 hectares in large cities; the plot ratio shall not be lower than 1.0 (1.0 included); real estate development projects for villas and golf courses shall fall into the category of prohibited use of land.

In accordance with the Regulations for the Expropriation of and Compensation for Housing on State-Owned Land (國有土地上房屋徵收與補償條例) promulgated by the State Council and implemented in January 2011, with regard to the expropriation of the housing of entities and individuals on the State-owned land, the owners of the housing being expropriated shall be offered a fair compensation for the need of public interest.

Compensation offered by governments at municipal and county levels that make housing expropriation decision to parties with housing being expropriated includes: (i) compensation for the value of the housing being expropriated; (ii) compensation for relocation and temporary settlement caused by expropriation of housing; and (iii) compensation for the loss arising from the suspension of production and operation caused by expropriation of housing.

The amount of compensation for value of housing being expropriated shall not be less than market price of the real estate similar to it on the announcement date of the housing expropriation decision. The value of housing being expropriated shall be appraised and determined by a real estate price appraisal institution with corresponding qualification according to the housing expropriation appraisal measures. A party that objects to the value of the housing being expropriated appraised and determined may apply to the real estate price appraisal institution for review of the appraisal. A party that objects to the review result may apply to the real estate price appraisal expert committee for verification.

The parties with housing being expropriated may choose monetary compensation, or may choose to exchange the property right of housing. If the parties with housing being expropriated choose to exchange the property right of housing, governments at municipal and county levels shall provide housing used for the exchange of property right, and calculate and settle the difference between the value of housing being expropriated and the value of housing used for the exchange of property right. If residential housing of an individual is expropriated due to renovation of old urban district and individual chooses to exchange for the property right of housing in the area being renovated, governments at municipal and county levels that make the housing expropriation decision shall provide the housing in the area being renovated or the nearby area.

### **Commencement of Development of a Real Estate Project**

In accordance with the Measures for Administration of Examination and Approval of Construction Land (建設用地審查報批管理辦法) promulgated by Ministry of Land and Resources on March 2, 1999 and amended in November 2010 and November 2016, respectively, and the Measures for Administration of Preliminary Examination of Construction Project land (建設項目用地預審管理辦法) promulgated by Ministry of Land and Resources on July 25, 2001, and amended on November 1, 2004, November 29, 2008 and November 29, 2016, respectively and taking effect from January 1, 2017, the constructor or developer must make a preliminary application for the construction land to the relevant competent land administration authorities. After receiving the preliminary application, the competent land administration authorities shall carry out preliminary examination on matters related to the construction project in compliance with the overall land utilization plans and national land supply policy. The competent land administration authorities at city or county level will sign a land grant contract with the land user and issue an Approval Certificate for Construction Land to the constructor or developer.

### **Idle Land**

According to the Urban Real Estate Law, those who obtain land use right for real estate development by grant must develop the land according to the purposes and within the development time frame as agreed under the land use right grant contract. Those who fail to commence development of the land within one year from the construction commencement date stipulated in the land grant contract may be charged an idle land fee of up to 20% of the land premium, and those who fail to commence development within two years may be deprived of land use right without compensation, except where the delay in commencement is due to force majeure, actions of governments or relevant government departments, or preliminary work necessary for the commencement of development.

According to the Regulations on the Disposal of Idle Land (閒置土地處置辦法) promulgated by Ministry of Land and Resources on April 26, 1999, amended on June 1, 2012 and taking effect from July 1, 2012, land with the following conditions is considered to be idle:

- the holder of the state-owned construction land use right fails to commence developing the state-owned construction land within one year after the construction commencement date as agreed or stated in the contract of compensated use of state-owned construction land or the land allocation decision;

- the area of the construction land developed upon commencement of development is less than 1/3 of the planned total area for development and construction, and the development and construction of the state-owned construction land has been suspended for more than one year; or
- the amount invested in the land is less than 25% of the total investment, and the development and construction of the state-owned construction land has been suspended for more than one year.

According to the above regulations, for idle land where construction and development has not commenced for one year, the competent department of land and resources at city or county level shall charge idle land fee at 20% of the cost of land grant or allocation. In the event that the construction and development has not commenced for two years, the competent department of land and resources at city or county level shall, upon the approval of the People's Government with approval authorities, issue the Decision on Recovering the Right to Use State-owned Construction Land to a holder of state-owned construction land use right, and recover the right to use the state-owned construction land without compensation. The above regulations also list the situations where the idleness of land is due to the reasons attributable to the governments as well as the ways of handling idle land under such situations.

### **Planning of a Real Estate Project**

Under the Measure for Planning and Administration of Grant and Assignment of Right to Use Urban State-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by Ministry of Construction on December 4, 1992, becoming effective from January 1, 1993 and revised on January 26, 2011, the grantee under a land grant contract, i.e. a real estate developer, shall apply for a construction land planning permit from the relevant competent authorities of urban planning and administration. The enterprise may apply for the certificate of land use right only after obtaining such permit.

Under the Law on Urban and Rural Planning of the PRC (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of NPC on October 28, 2007, effective from January 1, 2008 and revised on April 24, 2015, a real estate developer shall apply for the construction work planning permit from the competent authorities of urban and rural planning under the People's Government at city or county level for project construction.

### **Construction of a Real Estate Project**

According to the Measures for Administration of Construction Permit for Construction Projects (建築工程施工許可管理辦法) promulgated by MOHURD on June 25, 2014, becoming effective from October 25, 2014 and amended on September 19, 2018, a developer engaging in the construction and decoration of various kinds of houses and buildings as well as the ancillary facilities shall apply for a construction permit from the competent construction administration authorities at county level or above where the construction is located before the commencement of the construction.

In accordance with the Circular on Strengthening and Standardizing the Administration of Newly-commenced Projects (關於加強和規範新開工項目管理的通知) promulgated by the General Office of the State Council on November 17, 2007, construction projects shall meet certain conditions before commencement including complying with the national industrial policies, development and construction plans, land supply policies and market access criteria; completing the approval, ratification or filing procedures; complying with the urban and rural planning; obtaining the approval of the use of land; completing the approval of the environmental impact assessment; completing the energy-saving appraisal and examination for fixed asset investment projects; and acquiring the construction permit.

## **Completion of a Real Estate Project**

According to the Development and Operation Regulations, the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收規定) promulgated by MOHURD on December 2, 2013 and the Administrative Measures on the Filing of Acceptance Inspection upon Completion of House Construction and Municipal Infrastructure Projects (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 Ministry of Construction on April 4, 2000 and revised by MOHURD on October 19, 2009, after the completion of real estate projects, the real estate developer must organize an acceptance inspection and, after passing the inspection, file with the relevant governmental authorities on such completion of acceptance inspection. A real estate development project shall not be delivered for use until and unless it has carried out and passed the acceptance inspection. Where a real estate project is developed in phases, acceptance inspection may be carried out by phase.

## **Construction Safety**

Under relevant laws and regulations such as the Laws of Safe Production of the PRC (中華人民共和國安全生產法), promulgated by the Standing Committee of NPC in June 2002 and revised in August 2009 and August 2014, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction work commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the PRC (中華人民共和國建築法) promulgated and revised by the Standing Committee of NPC in November 1997 and April 2011, respectively, general construction contractor shall take overall responsibility for the safety in the construction site. Each subcontractor is required to comply with the protective measures adopted by general contractor and to purchase insurance policies covering accident injury for its employees on site.

## **Civil Air Defense Property**

Pursuant to the Law on National Defense of the PRC (中華人民共和國國防法) promulgated by NPC on March 14, 1997, as amended on August 27, 2009, national defense assets are owned by the state. Pursuant to the Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), or the Civil Air Defense Law, promulgated by 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 properties and investors in civil air defense properties are permitted to use (including lease) and manage civil air defense properties in time of peace and profit therefrom. However, such use may not impair their functions as civil air defense properties. The design, construction and quality of 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 civil air defense properties.

## **Insurance of a Property Project**

There are no mandatory provisions in PRC laws, regulations and government rules which require a property development enterprise to take out insurance policies for its property projects. However, PRC commercial banks may require the property development enterprise to purchase insurance as a condition for the commercial bank intends to grant a development loan to the property development enterprise.

## **Environmental Protection**

The laws and regulations governing the environmental protection for real estate developments in China include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer and approved by the relevant environmental regulatory authority, before the relevant authority will grant an approval for the commencement of construction of the real estate development. In addition, upon completion of the real estate development, the relevant environmental regulatory authority will also inspect the property project to ensure compliance with the applicable environmental protection standards and regulations before the property project may be delivered to the purchasers.

## **PROPERTY MANAGEMENT**

According to the Regulations on Property Management (物業管理條例) issued by the State Council on June 8, 2003, effective from September 1, 2003 and amended on August 26, 2007 and February 6, 2016 and March 19, 2018, respectively, the administrative department of construction under the State Council shall be in charge of the supervision and administration of the realty management activities all over the country. The administrative departments of construction of the local people's governments at the county level and above shall be in charge of the supervision and administration of the realty management activities within their respective administrative areas.

### **Under the Interim Measures for Offer and Acceptance of Tender Management of Property**

Management in Early Stages (前期物業管理招標投標管理暫行辦法), which was promulgated by Ministry of Construction on June 26, 2003 and became effective on September 1, 2003, prior to the selection and engagement of property management enterprises by owners of properties and the general meeting of owners of properties, the construction unit of residences and non-residences within the same management area shall select and engage a qualified property management enterprise through tender. For a project with less than three bidders or small scale residences, the qualified property management enterprise may be selected and engaged by way of an agreement, which is subject to the approval of the real estate administrative departments of the local government at the district or county level where the property is located. Such tenders typically include open tenders and invitational tenders. Where a property management enterprise is selected through a tender, the tender inviter shall complete the work of the tender before obtaining the pre-sale permits for commodity properties.

## **INTELLECTUAL PROPERTY RIGHTS**

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory party to the major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs").



## **Regulations on Trademarks**

The Trademark Law of the PRC (中華人民共和國商標法) was promulgated in August 1982 (amended on February 22, 1993, October 27, 2001 and August 30, 2013) 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.

The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of 10 years. Six months prior to the expiration of the 10-year term, an applicant can renewed the application and reapply for trademark protection.

Under the Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities of the trademark registrant's without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; and
- otherwise infringing upon other person's exclusive right to use a registered trademark and cause damages.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the SAIC and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

## **Regulations on Domain Names**

The Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 and became effective on November 1, 2017. These measures regulate the registration of domain names in Chinese with the Internet country code of “.cn.”

The Measures on Top Level Domain Names Dispute Resolution (中國互聯網絡信息中心國家頂級域名爭議解決辦法) were promulgated by the China Internet Network Information Center on September 11, 2014 and became effective on the same date. These measures require domain name disputes to be submitted to institutions authorized by the China Internet Network Information Center for resolution.

## LABOR PROTECTION AND SOCIAL INSURANCE

As our operation is mainly based in China, our PRC subsidiaries are required to comply with Chinese labor-related laws and regulations and provide compensation and other benefits to our employees, such as provision of vocational trainings and contribution to social insurance and housing provident funds.

According to the Labor Law of the PRC (中華人民共和國勞動法), which was promulgated by NPC on July 5, 1994 and amended on August 27, 2009 and December 29, 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Law on Labor Contract of the PRC (中華人民共和國勞動合同法), which was promulgated by NPC on June 29, 2007 and amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例) (Order No. 535 of the State Council), which was promulgated on September 18, 2008 and became effective since the same day, regulate both parties through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Law on Labor Contract and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Pursuant to the Law on Labor Contract, labor contracts concluded prior to the enactment of the said law and subsisting within the validity period of the said law shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the effective date of the Law on Labor Contract law.

The Employment Promotion Law of the PRC (中華人民共和國就業促進法), which became effective on January 1, 2008 and amended on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees.

The Law on Social Insurance of the PRC (中華人民共和國社會保險法) (No. 35 of the President), which was promulgated on October 28, 2010 and amended on December 29, 2018 has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration 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, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

## **MAJOR TAXES APPLICABLE TO REAL ESTATE DEVELOPERS AND OPERATORS**

Since our revenue is mainly derived from our operations in China, we are subject to Chinese taxation regimes.

### **Corporate Income Tax**

Prior to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法, “new Enterprise Income Tax Law”) and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the new income tax law, effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018, a unified corporate income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises, with the exception of those enterprises that enjoyed preferential tax treatment according to laws and regulations before the new Corporate Income Tax Law took effect. However, there will be a five-year transition period for enterprises established before March 16, 2007 and enjoying a preferential income tax rate under the previous tax laws and administrative regulations.

Simultaneously, under the new EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions with “de facto management body” located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new Corporate Income Tax Law, a “de facto management body” is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise.

In addition, dividends paid by a PRC subsidiary to its foreign shareholder will be subject to a withholding tax at a rate of 10% unless such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. According to the tax treaty entered into between the Mainland China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the Mainland China to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the Mainland China enterprise.

SAT issued the Measures for Handling Corporate Income Tax on Real Estate Development and Operation (房地產開發營業務企業所得稅處理辦法) on March 6, 2009, with retrospective effect from January 1, 2008 and amended on June 16, 2014 and June 15, 2018. The circular provides that the gross profit margin for tax calculation of the sale of uncompleted development product by an enterprise shall be determined by the state taxation bureau and local taxation bureau of each province, autonomous region and municipality directly under the Central Government pursuant to the following stipulations. For development products located in the city proper and suburbs of cities in which the People’s Governments of provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan are located, it shall not be lower than 15%; for development products located in the city proper and suburbs of prefectures or prefecture-level cities, it shall not be lower than 10%; and for development products located in other areas, it shall not be lower than 5%.

On May 12, 2010, SAT issued the Circular on Issues Concerning Conditions for Confirmation of the Completion of Real Estate Development Products (關於房地產開發企業開發產品完工條件確認問題的通知), which clarifies the conditions for confirming the completion of real estate development products. According to the circular, regardless of whether the project quality has passed the inspection and acceptance, or whether the completion filing and final accounting procedures have been completed, any real estate development product meeting one of the following conditions shall be deemed as a completed

development product: (1) The enterprise starts to process the delivery procedure of the development product (including the check-in procedure); (2) The development product has started to be put into use. The developer shall timely settle the tax costs of the development product, and compute its taxable income of the year.

On December 10, 2009, SAT issued the SAT Circular No. 698 with retrospective effect from January 1, 2008, which was amended on December 12, 2013 and February 3, 2015, pursuant to which, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (an “Indirect Transfer”), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority relating to the PRC resident enterprise. Using a “substance over form” approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such an Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income in respect of the transaction.

On February 3, 2015, the SAT issued the SAT Circular No. 7, which was respectively amended on October 17, 2017 and December 29, 2017 and abolished certain provisions in SAT Circular No. 698 and provided more guidance on a number of issues in the SAT Circular No. 698. The SAT Circular No. 698 was completely abolished on December 1, 2017.

If a non-resident enterprise indirectly transfers assets (including equity interests) in a PRC resident enterprise by entering into arrangements without reasonable commercial purposes but to evade EIT, the nature of this indirect transfer shall be reclassified and recognized as a direct transfer of assets of a PRC resident enterprise. Assets include (i) properties of an establishment or place in the PRC, (ii) real estate in the PRC or (iii) equity investment in a PRC resident enterprise and other assets directly held by such non-resident enterprise and for which the proceeds from the transfer of such assets shall be subject to EIT as specified by the PRC tax laws (collectively the “PRC Taxable Assets”). An indirect transfer of the PRC Taxable Assets refers to transactions with the same or similar substantive results as a direct transfer of the PRC Taxable Assets arising from a transfer by a non-resident enterprise of equity interest or other similar interest in an overseas enterprise (excluding the PRC resident enterprises registered overseas) that directly or indirectly holds the PRC Taxable Assets, including a change in overseas enterprise’s shareholders as a result of reorganization of such non-resident enterprise.

The relevant provisions in SAT Circular No. 7 are not applicable if the overall arrangement regarding the indirect transfer of the PRC Taxable Assets meets any of the following circumstances: (1) such non-resident enterprise obtains income from an indirect transfer of PRC Taxable Assets by acquiring and disposing of the equity interests of the same offshore listed company in a public market (“Public Market Safe Harbor”); or (2) such non-resident enterprise directly holds and transfers the PRC Taxable Assets in accordance with applicable tax treaty or arrangement which exempts the transfer from relevant enterprise income tax in the PRC.

If the above exemptions do not apply, transfers of shares by shareholders which are non-resident enterprises may be re-defined and recognized as a direct transfer of the PRC Taxable Assets if it is determined that such arrangements have no reasonable commercial purposes but to evade the EIT.

SAT Circular No. 7 provides that the overall circumstances of such transfer shall be considered and the following relevant factors shall all be analyzed in determining whether an indirect transfer of the PRC Taxable Assets has a reasonable commercial purpose, which should be determined on a case-by-case basis: (1) whether the main value of the equity of the overseas enterprise is, directly or indirectly, sourced from the PRC Taxable Assets; (2) whether the assets of the overseas enterprise are, directly or indirectly, mainly

comprised of investments in the PRC, or whether its income is, directly or indirectly, mainly sourced from the PRC; (3) whether the actual functions performed and risks undertaken by the overseas enterprises and its subsidiaries which, directly or indirectly, hold the PRC Taxable Assets can prove the economic substance of the corporate structure; (4) the existence duration of the shareholders, business model and related organizational structure of the overseas enterprise; (5) the information regarding overseas income tax payment for the indirect transfer of the PRC Taxable Assets; (6) whether the indirect investment or indirect transfer of the PRC Taxable Assets by the equity transferor can be substituted by a direct investment or a direct transfer of the PRC Taxable Assets; (7) the information regarding the tax treaties or tax arrangements applicable to the income from indirect transfer of the PRC Taxable Assets; and (8) other relevant factors.

SAT Circular No. 7 also provides that, unless covered by the exemptions stipulated, an indirect transfer shall be directly deemed to have no reasonable commercial purpose if it meets all the following circumstances (“Deemed Negative Determination”): (1) 75% or more of the equity value of the overseas enterprise is, directly or indirectly, derived from the PRC Taxable Assets; (2) at any time within one year before the indirect transfer of the PRC Taxable Assets, 90% or more of the total assets of the overseas enterprise (not including cash) are, directly or indirectly, comprised of investments in PRC, or 90% or more of the overseas enterprise’s income in the year before the indirect transfer of the PRC Taxable Assets is, directly or indirectly, derived from PRC; (3) the overseas enterprise and its subsidiaries which, directly or indirectly, hold the PRC Taxable Assets are incorporated in a country (region) to meet the organizational form as required by law, but actually only perform limited functions and undertake limited risks which are not enough to substantiate their economic substance; and (4) the overseas income tax payable for the indirect transfer of the PRC Taxable Assets outside of the PRC is less than the possible tax burden in the PRC on the direct transfer of the PRC Taxable Assets in the PRC.

SAT Circular No. 7 also provides that an indirect transfer of the PRC Taxable Assets shall be deemed to have reasonable commercial purpose if it meets all the following conditions: (1) parties to the indirect transfer have one of the following equity holding relationships: (a) the transferor, directly or indirectly, holding over 80% equity interest in the transferee; (b) the transferee, directly or indirectly, holding over 80% equity interest in the transferor; or (c) over 80% equity interest in each of the transferee and the transferor is held, directly or indirectly, by the same party. To the extent that the offshore subject company derives directly and indirectly more than 50% of its value from real estate in the PRC, the equity shareholding threshold shall be 100%; for the aforesaid indirect shareholding, the equity interest shall be calculated by multiplying the equity shareholding percentage at each level; (2) The current indirect transfer does not result in a reduction in the PRC income tax payable on the proceeds from subsequent potential indirect transfers of the PRC Taxable Properties; and (3) The transferee pays the consideration for the indirect transfer solely in the form of its equity interest or the equity interest of entities with equity controlling holding relationship (excluding equity interest in publicly listed companies).

### **Value-Added Tax (VAT)**

Pursuant to the Notice on Adjustment of Transforming Business Tax to Appreciation Tax (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36) issued on March 23, 2016 and implemented on May 1, 2016 by the MOF and the SAT, the pilot program of replacing business tax with appreciation tax shall be implemented nationwide effective from May 1, 2016 and all business tax payers in industry areas, including construction, real estate, finance and consumer service, shall be included in the scope of the pilot program and pay appreciation tax instead of business tax. According to the said regulation, the sale of self-developed old real estate projects (refers to real estate projects launched time before April 30, 2016 stating on the construction works commencement permit) by common taxpayer among real estate developers shall be subject to a simple tax rate of 5%, whereas, for self-developed real estate after May 1, 2016 by common taxpayer among real estate developers shall be subject to a general method tax rate of 5%. Moreover, real estate developers selling real estate project by advance payment will be subject to an appreciation tax of 3% when receiving the advance payment. Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (關於調整增值稅稅率的通知) (Cai Shui [2018] No. 32) promulgated by MOF and SAT on April 4, 2018 which took effective from May 1, 2018, the deduction rates of 11.0% applicable to the taxpayers who have VAT taxable sales

activities or imported goods are adjusted to 10.0%. According to the Circular on Policies Concerning Deepening the Reform of Value Added Tax (關於深化增值稅改革有關政策的公告) (“Circular 39”) promulgated by MOF, SAT and General Administration of Customs on March 21, 2019, which will take effective on April 1, 2019, the deduction rates of 10.0% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 9.0%.

**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 effective from January 1, 1994 and amended on January 8, 2011, as well as its implementation rules issued on January 27, 1995, land appreciation tax is payable on the appreciation value derived from the transfer of land use rights and buildings or other facilities on such land, after deducting the “deductible items” that include the followings:

- Payment made to acquire land use rights;
- Costs and charges incurred in connection with land development;
- Construction costs and charges for newly constructed buildings and facilities, or assessed value for old buildings and facilities;
- Taxes in connection with the transfer of real estates; and
- Other deductible items allowed by MOF. For taxpayers among real estate developers, they shall be allowed a 20% deduction from the sum calculated according to items 1 and 2.

The land appreciation tax shall adopt four levels of progressive tax rates, ranging from 30% to 60% of the appreciation value as follows:

Appreciation value	LAT rate
Portion not exceeding 50% of deductible items.....	30%
Portion over 50% but not more than 100% of deductible items .....	40%
Portion over 100% but not more than 200% of deductible items .....	50%
Portion over 200% of deductible items.....	60%

Exemption from LAT is available to the following cases:

- Taxpayers constructing ordinary residential properties for sale, where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estates taken over or recovered according to laws due to the construction needs of the State;
- Relocation due to the need of city planning and national construction;
- Due to redeployment of work or improvement of living standard, transfer by individuals of originally self-occupied residential properties after five years or more of self-residence with the approval of the tax authorities.

SAT issued the Circular on Careful Management of Land Appreciation Tax Collection (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to require local authorities to optimize the withholding methods of LAT. This requirement is restated in the Circular of SAT on Further Strengthening Administration Work in Relation to the Collection of Urban Land Use Tax and Land Appreciation Tax (國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) issued on August 5, 2004

by SAT. On December 28, 2006, SAT promulgated the (Circular Concerning the Administration of Settlement of Land Appreciation Tax Imposed on Real Estate Developers (關於房地產開發企業土地增值稅清算管理有關問題的通知), effective from February 1, 2007 and amended on June 15, 2018 which took effective on the same date. Starting from February 1, 2007, real estate developers shall settle the LAT in connection with their real estate development projects with the competent tax bureau at applicable tax rates. LAT shall be settled on the basis of the real estate development projects examined and approved by the relevant authority, and projects developed in phases shall be settled on the basis of the project phase.

LAT must be paid if a project meets any one of the following requirements:

- The real estate development project has been completed and sold out;
- The entire uncompleted and unsettled development project has been transferred; or
- The land use right of the relevant project has been transferred.

In addition, the competent tax authorities may require a real estate developer to settle the LAT in any one of the following circumstances:

- For completed real estate development projects, the transferred GFA represents more than 85% of the total saleable GFA, or if the proportion is less than 85%, the remaining saleable GFA has been leased out or used by the developer;
- The project has not been sold out three years after obtaining the sale or pre-sale permit;
- The developer applies for cancellation of tax registration without having settled the LAT; or
- Other conditions stipulated by the provincial tax authorities.

The provincial tax authorities will, taking into account of the local practical conditions, stipulate specific rules or measures on the management of the LAT settlement as required by the circular.

SAT issued the Circular on the Publication of the Administrative Rules for the Settlement of Land Appreciation Tax (關於印發《土地增值稅清算管理規程》的通知) on May 12, 2009, effective from June 1, 2009, which reiterated the above standards and requirements in the circular. On May 19, 2010, SAT issued the Circular on Issues Concerning Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知), which clarifies the revenue recognition in the settlement of land appreciation tax and other relevant issues. According to the circular, in the settlement of land appreciation tax, if the sales invoices of commodity housing are issued in full, the revenue shall be recognized based on the amount indicated in the invoices; if sales invoices are not issued or are issued in part, the revenue shall be recognized based on the purchase price and other income indicated in the sales contract signed by both parties. If the area of a commodity housing specified in a sales contract is inconsistent with the actual area measured by the relevant authorities and the purchase price has already been made up or returned before the settlement of land appreciation tax, adjustments shall be made in the calculation of land appreciation tax. The circular provides that the deed tax paid by a real estate developer for obtaining land use right shall be treated as the “relevant fees paid in accordance with the uniform regulations of the State” and be deducted as the “amount paid for obtaining land use right”.

On May 19, 2010, SAT published the Circular on Strengthening the Collection and Administration of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) to require all local governments to scientifically formulate the withholding tax rate and strengthen the withholding of land appreciation tax. According to the circular, all local governments shall make adjustments to the current withholding rate. Apart from indemnificatory housing, the withholding rate of provinces in the eastern region shall not be lower than 2%, the provinces in the central and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%. The local governments shall determine the appropriate withholding rates applicable to different types of real estates.

Pursuant to the Interim Measures on the Management of Value Added Tax of Self-developed Real Estate Project by the Sale of Real Estate Developers (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) issued on March 31, 2016 and implemented on May 1, 2016 and amended on June 15, 2018 by SAT and the Circular on Policies Concerning Deepening the Reform of Value Added Tax (關於深化增值稅改革有關政策的公告) issued on March 20, 2019 by MOF, SAT and General Administration of Customs, the real estate developer which sell self-developed real estate projects shall pay the appreciation tax (“VAT”). VAT is payable by taxpayers in the calendar month immediately following receipt of the presale proceeds of self-developed real estates in accordance with the following formula:  $VAT = \text{prepayments} \div (1 + \text{applicable taxable rate or levy rate}) \times 3\%$ . Where the method of general VAT taxation is applicable, the applicable taxable rate is 10%, and where the method of simplified VAT taxation is applicable, the levy rate is 9%.

## **Deed Tax**

Under the Interim Regulations on Deed Tax of the PRC (中華人民共和國契稅暫行條例) promulgated by the State Council on July 7, 1997 and effective from October 1, 1997 and amended on March 2, 2019, deed tax is chargeable to transferees of land use right and/or ownership of real estates in the PRC. These taxable transfers include:

- Grant of state-owned land use rights;
- Sale, gift and exchange of land use rights; and
- Sale, gift and exchange of buildings.

Deed tax rate is from 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions.

On September 29, 2010, SAT, MOF and MOHURD issued the Circular on Adjusting the Preferential Policies on Deed Tax and Individual Income Tax in Real Estate Deals (關於調整房地產交易環節契稅個人所得稅優惠政策的通知), effective from October 1, 2010, which provides that where an individual purchases an ordinary house as the sole house for his/her family (family members include the purchaser and his/her spouse and minor children, hereinafter the same) to live in, deed tax thereon shall be reduced by half. Where an individual purchases an ordinary house of 90 sq.m. or less as the sole house for his/her family to live in, the deed tax shall be reduced and levied at the rate of 1%. The tax authority shall inquire about the deed tax payment record of a taxpayer. In respect of individual purchase of an ordinary house that fails to satisfy the above requirements, no preferential tax policies set out above may be enjoyed.

Pursuant to the Notice on Adjustment of Preferential Treatment Policies in Respect of Deed Tax and Business Tax on Real Estate Transactions (關於調整房地產交易環節契稅、營業稅優惠政策的通知) promulgated by MOF, SAT and MOHURD on February 17, 2016 and became effective on February 22, 2016, the rate of deed tax payable for real estate transactions is adjusted downward as follows:

- for an individual purchasing the only residential property for his/her household, the rate of deed tax is adjusted downward to 1% for a property of 90 sq.m. or less and to 1.5% for a property of more than 90 sq.m.; and
- for an individual purchasing the second residential property for his/her household to improve the living conditions, the rate of deed tax is reduced to 1% for a property less than 90 sq.m. or less and to 2% for a property of more than 90 sq.m.

Beijing, Shanghai, Guangzhou and Shenzhen are not subject to the above deed tax preferential treatment policies temporarily.

## **Urban Land Use Tax**

Pursuant to the Interim Regulations on Urban Land Use Tax of the PRC (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on September 27, 1988 and revised on December 31,



2006 and amended on January 8, 2011 and December 7, 2013 and March 2, 2019, respectively, the urban land use tax is levied based on the area of the relevant land. As of January 1, 2007, the annual tax on each sq.m. of urban land shall be between RMB0.6 and RMB30.0.

### **Real Estate Tax**

Under the Interim Regulations on Real Estate Tax of the PRC (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986 and effective from October 1, 1986 and amended on January 8, 2011, the real estate tax is 1.2% if calculated on the basis of the residual value of the real estate and 12% if calculated on the basis of the rental of the real estate.

### **Stamp Duty**

Under the Interim Regulations on Stamp Duty of the PRC (中華人民共和國印花稅暫行條例) promulgated by the State Council on August 6, 1988 and amended on January 8, 2011, and effective from October 1, 1988, for transfer instruments of property rights, including those in respect of property ownership transfer, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and certificates of land use right, stamp duty is levied on an item-by-item basis of RMB5.0 per item.

### **URBAN MAINTENANCE AND CONSTRUCTION TAX**

Under the Interim Regulations on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on February 8, 1985 and amended on January 8, 2011, starting from 1985, any taxpayer of product tax, value-added tax or business tax, whether an enterprise or an individual, is liable for an urban maintenance and construction tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area, county or town.

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that, starting from December 1, 2010, the “Interim Regulations on Urban Maintenance and Construction Tax of the People’s Republic of China” promulgated in 1985 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on urban maintenance and construction tax promulgated by the State Council and the competent finance and tax authorities under the State Council since 1985 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

### **Education Surcharge**

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005 and January 8, 2011, any taxpayer of value-added tax, business tax or consumption tax, whether an individual or an enterprise, is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Circular of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知).

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals, which provides that, starting from December 1, 2010, the Interim Provisions on Imposition of Education Surcharge promulgated in 1986 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on education surcharge promulgated by the State Council and the competent finance and tax authorities under the State Council since 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

## FOREIGN EXCHANGE CONTROL

As the Company, incorporated in the Bermuda with limited liability, is a foreign investor under Chinese laws, we are subject to foreign currency regulations that are related to capital contribution and repatriation of dividends and other proceeds.

### General Regulations

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at the time being. SAFE, under the authority of PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign exchange in the PRC. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE before it could convert the Renminbi into foreign currency through the Bank of China or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis.

The principal law governing foreign exchange in the PRC is the PRC Administrative Regulations on Foreign Exchange (《中華人民共和國外匯管理條例》), the “**Foreign Exchange Regulations**”). The Foreign Exchange Regulations was enacted by the State Council on January 29, 1996 and implemented on April 1, 1996. On January 14, 1997 and August 5, 2008, the State Council amended the Foreign Exchange Regulations. According to the Foreign Exchange Regulations, the RMB is freely convertible for “current account transactions”, which refers to any transaction account for international receipts and payments involving goods, services, earnings and frequent transfers. For “capital account transactions” which refers to any transaction account for international receipts and payments that result in any change in external assets and liabilities, including, inter alia, capital transfers, direct investments, securities investments, derivatives and loans, prior approval of and registration with the SAFE or its local branches is generally required.

The Administrative Regulations on Foreign Exchange was amended by the State Council on August 1, 2008 and became effective on August 5, 2008. Under the revised Administrative Regulations on Foreign Exchange, the compulsory settlement of foreign exchange is dropped. As long as the foreign exchange income and expenses under the current accounts are based upon real and legal transactions, the foreign exchange income generated from current account transactions may be retained or sold by individuals and entities to financial institutions engaged in foreign currency settlement and sale according to the provisions and terms to be set forth by SAFE. Whether to retain or sell the foreign exchange income generated from capital account transactions to financial institutions engaged in foreign currency settlement and sale is subject to the approval of SAFE or its branches, except otherwise stipulated by the State. Foreign exchange or Renminbi funds for settlement under the capital account must be used in the way as approved by SAFE and its branches, and SAFE and its branches are empowered to supervise the use of the foreign exchange or Renminbi funds for settlement under the capital account and the alterations of the capital accounts.

According to the Notice on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises promulgated by the SAFE on March 30, 2015 (關於改革外商投資企業外匯資本金結匯管理方式的通知, the SAFE Notice 19), for actual needs of business operation, foreign invested enterprises may convert their foreign currency capital into Renminbi at their own discretions. The ratio of the discretionary settlement of foreign currency capital of foreign enterprises is tentatively set at 100%, which is subject to adjustment by SAFE in accordance with the status of international balance of payment. In addition, the foreign currency registered capital of a foreign-invested enterprise that has been settled in Renminbi may only be used for purposes within the business scope approved by the applicable governmental authority and shall not be used for the following purposes: (i) directly or indirectly used for expenditures prohibited by the laws and regulations or beyond the enterprise’s business scope; (ii) directly or indirectly used for securities investments unless otherwise specified by laws and regulations; (iii) directly or indirectly used for providing Renminbi entrusted loans (unless permitted in the business scope),

repaying loans between enterprises (including third party cash advance), or repaying bank loans it has obtained and on-lent to third parties; (iv) used to purchase non-self-use real estate, except for foreign invested real estate enterprises. Furthermore, foreign invested enterprises whose main business is investment are allowed to directly settle their foreign currency capital and transfer that amount into the account of the enterprise being invested, provided that the domestic investment project is real and compliant. For an ordinary foreign invested enterprise intending to engage in domestic equity investment using Renminbi settled from foreign currency capital, Circular 19 stipulates that the enterprise being invested shall first complete a domestic reinvestment registration and open a foreign currency settlement account with local foreign exchange authority (bank), after which the investing enterprise may transfer the Renminbi settled (consisting of the actual amount of the investment) to the account opened by the enterprise being invested.

### **Renminbi Exchange Rate Regulations**

On January 1, 1994, the dual exchange rate system for Renminbi was abolished and replaced by a single controlled floating exchange rate system, which was based on market demand and supply. Pursuant to such system, PBOC set and published the daily Renminbi-US dollar exchange rate. Such exchange rate was determined with reference to the transaction price for RMB-US dollar in the inter-bank foreign exchange market on the previous day. PBOC would also, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of the Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by PBOC.

On July 21, 2005, PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar only. PBOC will announce the closing price of the Renminbi exchange rate, such as the trading price of US dollar against RMB, in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of Renminbi on the following business day.

### **Foreign Exchange Registration of Offshore Special Purpose Companies**

On October 21, 2005, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知, “No. 75 Circular”), which became effective on November 1, 2005 and October 10, 2018 respectively. According to the circular, a “special purpose company” refers to an offshore company established or indirectly controlled by a PRC resident for the purpose of carrying out offshore financing with his/her assets or equity interest in a domestic enterprise. Prior to establishing or controlling such a special purpose company, each PRC resident must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch.

SAFE issued the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (關於進一步改進和調整直接投資外匯管理政策的通知) on November 19, 2012, effective on December 17, 2012 and amended on May 4, 2015. The circular contains an attachment which made specific provisions on the implementation of various matters, including the foreign exchange registration and alteration of special purpose company, establishment of special purpose company and merger and acquisition of domestic enterprises, as well as foreign exchange registration of newly-established foreign-invested enterprises and merger and acquisition of domestic enterprises by foreign-invested enterprises.

On July 4, 2014, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (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, “No. 37 Circular”) to replace the No. 75 Circular and further

simplify and facilitate the cross-border capital transactions involved in the investment and financing activities carried out by domestic residents through special purpose companies, which became effective on the date of promulgation. According to the No. 37 Circular, a “special purpose company” refers to an offshore company that are directly established or indirectly controlled for the purpose of investment and financing by Mainland China residents (including Mainland China institutions and Mainland China individuals) with their legitimate holdings of the assets or interests in Mainland China enterprises, or their legitimate holdings of overseas assets or interests. Prior to making contribution to a special purpose company with legitimate holdings of domestic or overseas assets or interests, a Mainland China resident shall apply to the relevant local SAFE branch for foreign exchange registration of overseas investment. The No. 75 Circular was repealed on the effective date of the No. 37 Circular.

On February 13, 2015, SAFE issued the Circular on Issues Relating to the Policies of the Foreign Exchange Administration in Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知, “No. 13 Circular”), which came into effect on June 1, 2015, to further simplify the procedures of foreign exchange administration applicable to direct investment. According to the No. 13 Circular, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment including the foreign exchange registration under the No. 37 Circular.

### **Special Foreign Exchange Regulations on Real Estate Enterprises**

On September 1, 2006, SAFE and Ministry of Construction jointly issued the Circular on Regulating Issues Relevant to Administration of Foreign Exchange in the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知) (amended on May 4, 2015). The circular provides that:

- where a FIREE fails to obtain a state-owned land use rights certificate or to make its capital fund for a development project reach 35% of the total investment to the project, the foreign exchange bureau shall not register the foreign debt or approve the settlement of foreign debt;
- where a foreign institution or individual acquires a domestic real estate enterprise but fails to pay the transfer price in a lump sum with its (his) own fund, the foreign exchange bureau shall not register the foreign exchange income from the transfer of equities;
- the domestic and foreign investors of a FIREE shall not reach an agreement including any clauses which promise a fixed return or fixed revenue in any disguised form to any party, otherwise the foreign exchange bureau will not handle the foreign exchange registration or registration alteration for the foreign-invested enterprise; and
- the funds in the foreign exchange account exclusive for foreign investors opened by a foreign institution or individual in a domestic bank shall not be used for real estate development or operation. The circular also provides for the foreign exchange handling process related to the purchase and sale of commodity houses in the PRC by branches of overseas institutions established in the PRC, overseas individuals, Hong Kong, Macao or Taiwan residents and overseas Chinese.

### **DIVIDEND DISTRIBUTION**

According to the Company Law of the PRC (中華人民共和國公司法), the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法) and its Implementing Regulations, sino-foreign equity joint venture enterprises, or EJV, in China may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. After making up for any deficit in prior years pursuant to the PRC laws, an EJV in China is required to set aside each year as general reserves at least 10% of its after-tax profit, determined in accordance with PRC accounting standards and regulations, until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends.

The shareholders of an EJV may, in their discretion, allocate a portion of the enterprise's after-tax profit to such enterprise's staff welfare and bonus funds. EJVs that are in deficit or liquidation may not distribute dividends.

## **ENVIRONMENTAL LAW**

The PRC environmental laws and regulations include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the PRC Law on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the PRC Law on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) (collectively, the "Environmental Laws"). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage and waste discharge.

According to the Environmental Laws, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of gas waste, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment before commencing construction of production facilities. They must install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

The directors are entrusted with the responsibility for the overall management of our Company. The directors are assisted by a team of experienced and qualified executive officers, each responsible for different functions. The particulars of the directors as of the date of this offering memorandum are set out below.

Name	Age	Position
Mr. YU Pan (余斌).....	54	Chairman and Chief Executive Officer
Mr. WEN Xiaobing (文小兵).....	50	Deputy Chief Executive Officer
Mr. WANG Chenghua (王成華).....	41	Executive Director
Mr. WONG Lok (黃樂).....	61	Non-executive Director
Mr. CHOY Shu Kwan (蔡澍鈞).....	64	Independent non-executive Director
Mr. CHENG Wing Keung, Raymond (鄭永強).....	59	Independent non-executive Director
Ms. CHUNG Lai Fong (鍾麗芳).....	51	Independent non-executive Director

### Executive Directors

**Mr. YU Pan (余斌)**, aged 54, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. He has been the controlling shareholder of the Company ever since then. Mr. YU has over 29 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, Guangzhou Tianyu Holdings Group Limited (廣州天譽控股有限公司) (formerly known as Guangzhou Tianyu Real Estate Development Company Limited (廣州市天譽房地產開發有限公司)) (“**GZ Tianyu**”), which was set up in July 1997 from which the Company acquired some projects in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

**Mr. WEN Xiaobing (文小兵)**, aged 50, has been appointed as executive director in November 2013. He is also the deputy chief executive officer of the Group and president of Guangzhou head office in charge of property development operation in the PRC. Mr. WEN holds a Bachelor Degree in History from Peking University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 28 years of working experience in managerial positions in corporations in the PRC. Before transferred to the Group, Mr. WEN joined GZ Tianyu in March 1999.

**Mr. WANG Chenghua (王成華)**, aged 41, was appointed as executive director in October 2018. Mr. Wang is the president of the Group in charge of the Company’s mergers and acquisitions, corporate finance, overseas investment and business explorations. Mr. WANG holds a Master Degree in economic and obtained a Level C Certificate from International Project Management Association (IPMA) in 2003. Mr. WANG is also a member of CPA Australia. Prior to join the Company, he had over 11 years of working experience in merger and acquisition, corporate finance and finance management in a Global 500 company.

### Non-executive Director

**Mr. WONG Lok (黃樂)**, aged 61, joined the Company in August 2005 as an executive director and was re-designated as non-executive director in January 2019. Mr. WONG has over 33 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

## Independent non-executive Directors

**Mr. CHOY Shu Kwan (蔡澍鈞)**, aged 64, joined the Company in December 2004. Mr. CHOY holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his retirement in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock Code: 119).

**Mr. CHENG Wing Keung, Raymond (鄭永強)**, aged 59, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law (中國政法大學), the PRC. He has been appointed by the Hon Chief Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from October 4, 2017. Besides, Mr. CHENG has also been appointed by The Government of Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from January 1, 2018. Mr. CHENG has over 31 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Stock Code: 223).

**Ms. CHUNG Lai Fong (鍾麗芳)**, aged 51, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 23 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

## COMPANY SECRETARY

**Ms. CHEUNG Lin Shun (張蓮順)**, aged 56, joined the Company in March 2005 and has been the company secretary of the Company since then. Ms. CHEUNG is also the vice president in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 33 years of experience in auditing in a big four accounting firm and experience in corporate secretarial, accounting and corporate finance field in a number of listed companies in Hong Kong.

## SENIOR MANAGEMENT

**Mr. LIN Shengjie (林聖傑)**, aged 53, is the vice president of the Guangzhou head office in charge of all onshore financing in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 28 years of working experience in finance and accounting in property development, direct investment in the PRC, Thailand and Hong Kong. Before transferred to the Group, Mr. LIN joined GZ Tianyu in January 2002.

**Mr. XIE Xiaohua (謝曉華)**, aged 48, joined the Group in February 2014 and is the vice president of Guangzhou head office in charge of general project management, costing and coordinate the operations of projects. Mr. XIE graduated from Sun Yat-sen University (中山大學) with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 24 years of working experience in the area of engineering management in overall project development.

**Mr. ZENG Fanyou (曾凡友)**, aged 43, joined the Group in June 2016 and is the vice president of Guangzhou head office in charge of sales and marketing management of property development and oversees the commercial operations in youth community project. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 18 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. (珠江房地產開發有限公司) and New World China Land Limited (新世界中國地產有限公司) in the past.

**Mr. TAN Yongqiang (譚永強)**, aged 55, joined the Group in October 2016 and is the vice president of Guangzhou head office in charge of city development business that focus on the urban renewal projects in Guangzhou. Mr. TAN graduated from South China University of Technology (華南理工大學) with Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 22 years of working experience in project management and has worked in large-scale group in the PRC such as Yuexiu Group.

**Mr. CHEN Jianwen (陳健文)**, aged 39, joined the Group in August 2018 and is the vice president of Guangzhou head office in charge of all the planning and management of financial accounting, treasury and tax affairs of PRC operations. Mr. CHEN graduated from Sun Yat-sen University (中山大學) with a bachelor's degree in management. He also holds the certificates of the Chinese Certified Public Accountant (CPA), Certified Tax Agents (CTA) and the Certified Internal Auditor (CIA). Mr. Chen has worked in one of the big four international accounting firms as well as many well-known and listed real estate groups in China as a senior financial management. He has over 16 years of solid experiences in financial management.

**Mr. SONG Tianyu (宋天宇)**, aged 36, joined the Group in December 2018 and is the vice president of Guangzhou head office in charge of human resources and administrative management. Mr. SONG graduated from Jilin Commercial College with a major in food and beverage. He has over 12 years of administrative experience in a Global 500 company.

## **BOARD COMMITTEES**

We have established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Risk Management Committee. Each of the Board Committees has specific written terms of reference which deal clearly with their authority and duties.

### **Audit Committee**

The Audit Committee is composed of Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Mr. CHOY Shu Kwan is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for, among others, reviewing the integrity of accounts and financial reporting procedures, reviewing and overseeing the effectiveness of internal control systems, appointing external auditors and assessing their qualifications, independence and performance, and reviewing periodically the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

### **Remuneration Committee**

The Remuneration Committee is comprised of four directors, Mr. YU Pan, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Ms. CHUNG Lai Fong is the chairwoman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for, among other matters, making recommendations to the Board on our Company's overall policy and structure for all remunerations of directors and senior management and reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved.



## **Nomination Committee**

The Nomination Committee is comprised of Mr. YU Pan, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond, and Ms. CHUNG Lai Fong. Mr. YU Pan is the chairman of the committee.

The Nomination Committee is primarily responsible for, among other matters, making recommendations to the Board on the procedures of appointment of directors and the selection from individuals nominated for directorship, reviewing the structure, size and composition of the Board at least annually, and making recommendations on any proposed changes to the Board to complement the Group's corporate strategies.

## **Risk management Committee**

The Risk Management Committee is comprised of Mr. WEN Xiaobing, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Mr. WEN Xiaobing is the chairman of the Risk Management Committee.

The Risk Management Committee delegates its routine monitoring functioning to risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The major roles and functions of the risk management team are to monitor and review the risk management system and advise the Board with respect to the effectiveness of and improvements to the existing system and to review the internal control policies associated with the management of risks to ensure adequate control procedures have been developed in daily management to identify and encounter the risks.

## **SHARE OPTIONS SCHEME**

### **2015 Scheme**

We adopted a share options scheme on June 9, 2015 (the "2015 Scheme") upon the expiry of the previous share options scheme adopted in 2005 (the "2005 Scheme") on August 3, 2015. The 2015 Scheme provides incentives and rewards to eligible participants who are directors of Skyfame Realty (Holding) Limited and employees of the Group.

The 2015 Scheme will remain in force for ten years unless cancelled or amended. Under the 2015 Scheme, the directors are authorized, at their absolute discretion, to invite any employee and any directors of any member of the Group or any entity in which the Group holds an equity interest who is eligible to participate in the 2015 Scheme, to take up the options.

As of the date of this offering memorandum, 73,000,000 share options (before adjustment for share subdivision of the Company and equivalent to 219,000,000 subdivided shares) have been granted under the 2015 Scheme, of which 70,584,100 share options (after adjustment for share subdivision of the Company) were exercised or cancelled in accordance with the terms of the 2015 Scheme and the number of share options outstanding is 148,415,900 (after adjustment for share subdivision of the Company). While the number of outstanding share options granted under the 2005 Scheme as at the date of this offering memorandum is 23,727,936 (after adjustment for share subdivision of the Company).

### **2018 Scheme**

We adopted a share award scheme on July 3, 2018 (the "2018 Scheme") to recognize contributions by and to provide incentives to employees of the Company.

The 2018 Scheme will remain in force for ten years commencing on July 3, 2018. Under the 2018 Scheme, the board of directors may, from time to time, at their absolute discretion, decide to purchase existing ordinary shares of the Company from the open market. The board of directors may select employees to participate in the 2018 Scheme and determine numbers of shares awarded to the selected employees. All award shall be in writing and approved by the board of directors.

The number of shares awarded under the 2018 Scheme shall not exceed 5% of the issued capital of the Company from time to time. The maximum aggregate number of share awarded to one employee shall not exceed 1% of the issued capital of the Company from time to time.

As of the date of this information memorandum, an aggregate of HK\$170,000,000 was contributed to the trust account held by the trustee for the Share Award Scheme Trust and out of this trust fund an aggregate of 158,278,000 subdivided shares of the Company was purchased. As of the date of this information, memorandum, 119,500,000 shares were awarded to 54 selected employees (including directors of the Company) of the Company.

## PRINCIPAL SHAREHOLDERS

As of the date of this offering memorandum, the following persons had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance:

Name of shareholder	Nature	Number of ordinary shares held	Percentage of shareholding in our Company <sup>(2)</sup>
YU Pan <sup>(1)</sup> .....	Interest of controlled corporation and/or beneficial owner	5,744,039,221 (L) 32,716,666 (S)	72.45 (L) 0.41 (S)
Sharp Bright International Limited (“Sharp Bright”) <sup>(1)</sup> .....	Interest of controlled corporation	5,015,833,221 (L) 32,716,666 (S)	63.26 (L) 0.41 (S)
Grand Cosmos Holdings Limited (“Grand Cosmos”) <sup>(1)</sup> .....	Beneficial owner	5,015,833,221 (L) 32,716,666 (S)	63.26 (L) 0.41 (S)
Haitong International Holdings Limited .....	Interest of controlled corporation	3,150,556,666 (L)	39.74 (L)
Haitong International Securities Group Limited .....	Interest of controlled corporation	3,150,556,666 (L)	39.74 (L)
Haitong Securities Co., Ltd. ....	Interest of controlled corporation	3,150,556,666 (L)	39.74 (L)
Haitong International Financial Solutions Limited .....	Person having a security interest in shares	3,000,000,000 (L)	37.84 (L)

*Notes:*

- (1) The 5,744,039,221 Shares comprised (i) 718,706,000 Shares directly held by Mr. YU Pan; (ii) 9,500,000 Shares granted by the Company to Mr. Yu Pan under the 2018 scheme and is held by a trustee; and (iii) 5,015,833,221 Shares held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Among the total of 5,744,039,221 Shares, (i) 3,000,000,000 Shares held by Grand Cosmos were charged in favour of Haitong International Financial Solutions Limited pursuant to a security deed dated December 14, 2017; and (ii) 117,840,000 shares were charged by Grand Cosmos in favour of West Ridge Investment Company Limited pursuant to a share charge dated April 17, 2018 in relation to a redeemable exchangeable bond in the principal amount of HK\$78,500,000 issued by Grand Cosmos to West Ridge Investment Company Limited of which HK\$39,240,000 was exchanged for 26,160,000 Shares (having adjusted for sub-division of shares) upon exercise of the exchange right in September 2018. The balance of the loan of HK\$39,260,000 is exchangeable for 32,716,666 Shares at a revised exchange price of HK\$1.2 per share upon exercise of the exchange right.
- (2) For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 7,928,336,062 Shares (after adjustment for Share Subdivision) in issue as of the date of this offering memorandum.

## RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between us or our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth certain material transactions between us and our related parties during the years ended December 31, 2016, 2017 and 2018<sup>(1)</sup>:

	For the year ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousand)			
<b>Material transactions</b>				
Companies beneficially owned by				
Mr. YU Pan and his spouse <sup>(2)</sup> .....	139,733	137,312	(45,215)	(6,576)
Compensation of key management				
personnel <sup>(3)</sup> .....	26,706	32,656	33,664	4,896

*Notes:*

- (1) Except as disclosed in the table above, Mr. YU Pan and his spouse or a company controlled by him have provided legal charge over 965,580,000 Shares (having adjusted for sub-division of shares) of the Company beneficially owned by Mr. Yu, personal guarantees and corporate guarantee for the Group's bank loans and trust loan in the years of 2016, 2017 and 2018.
- (2) The types of transactions with companies beneficially owned by Mr. YU Pan and his spouse for 2016, 2017 and 2018 include: rental income received from office leasing, management fee paid to a related company, consideration received from disposal of properties under development in Yongzhou Project and consideration paid for acquisition of a subsidiary.
- (3) Compensation of key senior management including short-term benefits, other long-term benefits and equity-settled share-based payment expenses.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness. As of December 31, 2018, our total interest-bearing bank loans and Bonds Payable payables in the aggregate amounted to RMB6,362.6 million (US\$925.4 million). Subsequent to December 31, 2018, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property development, repay existing indebtedness and for general corporate purposes. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

### LOAN AGREEMENTS IN THE PRC

As of December 31, 2018, certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and trust companies, including but not limited to China Minsheng Bank, Agricultural Bank of China Limited, China Cinda Asset Management Holdings Company Limited and Sichuan Trust Co., Ltd. These loans are mainly used to finance payment of development costs and repay the other loans. For bank borrowings and trust loans to finance development costs, they have terms ranging from one to 15 years, which generally correspond to the construction periods of the particular projects. As of December 31, 2018, the aggregate outstanding amount under these bank loans and trust loans totaled approximately RMB3,992.4 million (US\$580.7 million), of which RMB1,850.8 million (US\$269.2 million) was due within one year, and RMB1,847.7 million (US\$268.7 million) was due between two and five years. Our PRC loans are typically secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries, the Company and Mr. Yu Pan and his spouse.

#### Interest

The principal amounts outstanding under our PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2018, the weighted average effective interest rate on the aggregate outstanding amount of our PRC bank loans and trust loans was 6.5% per annum and 12.5% per annum respectively.

#### Covenants

Under these PRC loans, many of our subsidiary borrowers have agreed, among other things, not to take some of the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of their property or assets or dealing with their assets in a way that may adversely affect their ability to repay their loans;
- granting guarantees to any third parties that may adversely affect their ability to repay their loans;
- making any major changes to their corporate structures, such as entering into joint ventures, mergers, acquisitions and reorganizations;
- altering the nature of scope of their business operations in any material respect;
- transferring part or all of their liabilities under the loans to a third party;
- prepaying the loans;

- declaring or paying dividends;
- selling or disposing of assets that may adversely affect their ability to repay their loans; and
- incurring other indebtedness that may adversely affect their ability to repay their loans.

### **Events of Default**

The PRC loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires the latter's approval and material breach of the terms of the loan agreement. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

### **Guarantee and Security**

Certain of our PRC subsidiaries have entered into guarantee agreements with PRC banks in connection with some of the PRC loans, pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Further, as of December 31, 2018, all of the PRC loans were secured by our assets which includes properties held for sale, properties under development, property, plant and equipment, land use rights, investment properties and equity interests of certain subsidiaries.

### **Dividend Restriction**

Two of our PRC subsidiaries under certain financing agreements have agreed not to distribute any dividend until the borrower fully repays the principal and interest of the loan.

## **OFFSHORE FINANCING AGREEMENTS**

### **Anglo MTB Programme**

On August 25, 2014, we established a medium term bond programme with an offering size of up to HK\$3.3 billion (US\$0.42 billion) (the "Anglo MTB Programme"). According to the relevant arranger agreement, we appointed Anglo Chinese Corporate Finance, Limited in the capacity of arranger to give instruction on behalf of the Company to the bond register to issue Anglo Medium Term Bonds. The arranger agreement has expired on January 18, 2018 when the placing period ended.

As of the date of this offering memorandum, we issued, under the Anglo MTB Programme, to some professional investors unsecured bonds in total of 10 series with an aggregate principal amount of HK\$3.3 billion (US\$421.4 million) of which principal amount of HK\$290.0 million (US\$37.0 million) due on September 12, 2024 (the "Anglo 2024 Bonds"), HK\$80.0 million (US\$10.2 million) due on September 12, 2025 (the "Anglo 2025 Bonds"), HK\$100.0 million (US\$12.8 million) due on September 12, 2026 (the "Anglo 2026 Bonds"), HK\$570.0 million (US\$72.8 million) due on November 14, 2031 (the "Anglo 2031 Bonds"), HK\$960.0 million (US\$122.6 million) due on November 14, 2032 (the "Anglo 2032 Bonds") and HK\$1,300 million (US\$166.0 million) due on November 14, 2033 (the "Anglo 2033 Bonds"). The Anglo 2024 Bonds, Anglo 2025 Bonds and 2026 Bonds carry a coupon interest at 7.5%, whilst the Anglo 2031 Bonds, Anglo 2032 Bonds and Anglo 2033 Bonds carry a coupon interest at 8.0% per annum. Interests chargeable on the bonds became payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually until maturity. The bonds are amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

## **Apastron MTB Programme**

On June 16, 2017, we established a medium term bond programme with an offering size of up to HK\$1.5 billion which was amended to HK\$2.5 billion (US\$319.3 million) by our board resolution adopted on January 8, 2018 (the “Apastron MTB Programme”). According to the relevant arranger agreement, we have appointed Apastron Capital Limited in the capacity of placing agent under a placing agreement to place the bonds and the holders of the bonds are entitled to the benefits of a deed poll constituting the bonds.

The issue period under the Apastron MTB Program is from the date of the arranger agreement to the first anniversary of such date or such longer period as agreed by Apastron Capital Limited and us. Any bonds issued under the Apastron MTB Programme (the “Apastron Medium Term Bonds”) are denominated in Hong Kong dollars and to professional investors only.

As of the date of this offering memorandum, we have issued, under the Apastron MTB Programme, to some professional investors unsecured bonds respectively with an aggregate principal amounts of HK\$10.0 million (US\$1.3 million) due on May 15, 2027 (the “Apastron 2027 Bonds”) and HK\$1,880.0 million (US\$240.1 million) due on June 16, 2034 (the “Apastron 2034 Bonds”). We may no longer take down under the Apastron MTB Programme as the issuance period of the programme expired on June 16, 2018. Interests chargeable on the bonds became payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually in arrears first payable on June 16, 2019 and last payable on June 16, 2026 for the Apastron 2027 Bonds and June 16, 2033 for the Apastron 2034 Bonds. The bonds are amortised at the effective interest method by applying the effective interest rate ranging from 10.92% to 13.14% per annum.

### **July 2019 Bonds**

On July 5, 2016, we executed a bonds instrument (the “July 2019 Bonds Instrument”) pursuant to which we issued redeemable fixed coupon unsecured and unsubordinated bonds in the principal amount of HK\$100.0 million (US\$12.8 million) due on July 4, 2019 (the “July 2019 Bonds”). As of the date of this offering memorandum, an aggregate principal amount of HK\$79.5 million (US\$10.2 million) of the July 2019 Bonds remains outstanding.

#### ***Interest***

The July 2019 Bonds bear an interest rate of 10.0% per annum. Interest payment is payable quarterly in arrears. If we fail to pay any amount payable under the July 2019 Bonds on its due date, interest shall accrue on the overdue amount from the second day commencing from the due date to the date of actual payment of the overdue amount (both days inclusive) at a simple interest rate of 24% per annum.

#### ***Covenants***

Subject to conditions and exceptions, the July 2019 Bonds Instrument contains certain covenants, restricting us from, among other things:

- selling or otherwise disposing, or creating encumbrance of assets;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment;

- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest; and
- making borrowings, incurring liabilities, entering into indemnities, financial commitments or guarantees, etc.

### ***Events of Default***

The July 2019 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the July 2019 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the July 2019 Bonds then outstanding to become due and payable immediately in whole but not in part.

### **November 2019 Bonds**

On November 18, 2016, we executed a bond instrument (the “November 2019 Bonds Instrument”), pursuant to which we issued redeemable fixed coupon unsecured and unsubordinated bonds in the principal amount of HK\$200.0 million (US\$25.5 million) due November 17, 2019 (the “November 2019 Bonds”). As of the date of this offering memorandum, an aggregate principal amount of the November 2019 Bonds of HK\$113.9 million (US\$14.5 million) is outstanding.

### ***Interest***

The November 2019 Bonds bear an interest rate of 5.0% per annum. Interest payment is payable quarterly in arrears. If we fail to pay any amount payable under the November 2019 Bonds on the due dates, interest shall accrue on the overdue amount from the second day commencing from the due date to the date of actual payment of the overdue amount (both days inclusive) at a simple interest rate of 20% per annum.

### ***Covenants***

Subject to conditions and exceptions, the November 2019 Bonds Instrument contains certain covenants restricting us from, among other things:

- selling or otherwise disposing of assets;
- making borrowings, incurring liabilities, entering into indemnities, financial commitments or guarantees, etc.;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment; and
- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest.



### ***Events of Default***

The November 2019 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the November 2019 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the November 2019 Bonds then outstanding to become due and payable immediately in whole but not in part.

### **January 2021 Bonds**

On January 10, 2018, we executed a bonds instrument (the “January 2021 Bonds Instrument”) pursuant to which we issued fixed coupon unsecured and unsubordinated bonds in the principal amount of HK\$300.0 million (US\$38.3 million) due on the day immediately preceding the third anniversary of the issue date of the bonds (the “January 2021 Bonds”). As of the date of this offering memorandum, the January 2021 Bonds in principal amount of HK\$249 million (US\$31.8 million) were issued and outstanding.

### ***Interest***

The January 2021 Bonds bear a simple interest rate of 6.0% per annum, payable quarterly in arrears.

### ***Covenants***

Subject to conditions and exceptions, the January 2021 Bonds Instrument contains certain covenants, restricting us from, among other things:

- selling or otherwise disposing of assets;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment; and
- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest.

### ***Events of Default***

The January 2021 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the January 2021 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the January 2021 Bonds then outstanding to become due and payable immediately in whole but not in part.

## **2019 Bonds**

On August 30, 2018, we issued 10.0% bonds due August 28, 2019 in an aggregate principal amount of US\$30.0 million (the “2019 Bonds”) pursuant to a trust deed (as amended and supplemental from time to time, the “2019 Trust Deed”). On February 19, 2019, we completed partial redemption of the 2019 Bonds in the amount of US\$12.8 million. As of the date of this offering memorandum, an aggregate principal amount of the 2019 Bonds of US\$17.2 million remains outstanding.

### ***Interest***

The 2019 Bonds bear an interest rate of 10.0% per annum. Interest payment is payable in arrears on February 28, 2019 and August 28, 2019.

### ***Covenants***

Subject to conditions and exceptions, the 2019 Trust Deed contains certain covenants, restricting us and our Restricted Subsidiaries to, among other things:

- incur additional indebtedness and issue preferred stock;
- make restricted payments;
- enter into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends and transfer assets or make inter-company loans;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee any indebtedness of our Company;
- enter into transactions with shareholders or affiliates;
- create liens;
- enter into sale and leaseback transactions;
- sell assets;
- effect a consolidation or merger; or
- engage in different business activities.

### ***Events of Default***

The 2019 Trust Deed contains certain customary events of default, including default in the payment of principal of the 2019 Bonds when become due, default payment of interest when due and continued for 30 days, breaches of covenant and other events of default specified in the terms and conditions of the 2019 Bonds.

### ***Change of Control***

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2019 Bonds at a purchase price of 101% of their principal amount plus any accrued and unpaid interest.

### ***Maturity and Redemption***

The maturity date of the 2019 Bonds is August 28, 2019.

On giving not less than 15 nor more than 30 days' notice to the Bondholders in advance, at any time prior to August 28, 2019, we may on any one or more occasions redeem all or any part of the 2019 Bonds, at a redemption price of 100% plus accrued and unpaid interest, if any, on the Bonds redeemed, to (but not including) the redemption date.

### **BEA Facility Loan**

On September 28, 2018, the Bank of East Asia, Limited, as the lender, issued a facility letter to our wholly owned subsidiary, Waymax Investments Limited, for a total facility limit of approximately HK\$202.1 million (US\$25.8 million) (the "BEA Facility Loan"). As of the date of this offering memorandum, HK\$197.1 million (US\$25.2 million) of the loan has been withdrawn and remains outstanding with an interest rate of 2% per annum over HIBOR as quoted on the first day of each interest period.

#### ***Covenants***

Our offshore loan facility agreements contain customary covenants and restrictions, including, amongst others, negative pledge on assets (with certain exemptions), financial covenants including maintaining its financial condition to the satisfaction of the lender and providing financial statements to the lender in due course.

#### ***Events of Default***

These offshore facilities contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of fiduciary or statutory duties. If an event of default occurs, the lender shall be entitled to recover full payment or security from the borrower or the guarantor. The lender has the overriding right at any time to request the borrower to immediately make payment and/or cash collateralisation of all or any sum actually or contingently owing to the lender under the facility.

### **IB Facility Loan**

On December 19, 2018, we entered into a facility agreement with Industrial Bank Co., Ltd. Hong Kong Branch, as the lender, for a term loan in the aggregate principal amount of HK\$750.0 million. The principal amount outstanding under the loan bears an interest at (i) 3.73% plus the applicable HIBOR per annum for the first 12 months from the first utilisation date; and (ii) 4.73% plus the applicable HIBOR per annum from and including the date falling 12 Months from the first utilisation date to and including the final repayment date. The loan is repayable in full 24 months from the first utilisation date, which may be extended in accordance with the facility agreement. As of the date of this offering memorandum, HK\$750.0 million (US\$95.8 million) of the loan remains outstanding.

#### ***Covenants***

Our offshore loan facility agreements contain customary covenants and restrictions, including, amongst others, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net debt and consolidated EBITDA.

#### ***Events of default***

These offshore facilities contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

### ***Venture Smart Bonds***

On May 31, 2019, we executed a placing agreement (the “Placing Agreement”) pursuant to which Venture Smart Asia Limited as the Arranger and Bookrunner will use its best efforts to procure places to subscribe for the Bonds with an aggregate principal amount up to HK\$200.0 million (US\$25.5 million) (the “**Venture Smart Bonds**”) with a maturity date of two (2) years from the issue date, on the terms and subject to the conditions set out in the Placing Agreement. As of the date of this offering memorandum, the Venture Smart Bonds in the principal amount of HK\$46.0 million (US\$5.9 million) were issued and outstanding.

#### ***Covenants***

The Placing Agreement contains covenants and restrictions, including (i) we will not make any change in the terms and conditions of employment of or terminate the employment of Mr. Yu; and (ii) we shall procure that Mr. Yu shall not resign, quit or otherwise terminate his employment contract or service agreement with us; or if in the case that such resignation or termination shall have occurred, Mr. Yu shall not carry on, engage, invest, participate or otherwise participate in any activities or business which compete or may compete directly or indirectly with our principal business within twelve (12) months from the effective date of such resignation or termination.

#### ***Events of default***

The Placing Agreement contains certain customary events of default, including change of control, non-payment of principal or interest, cross default and misrepresentation. If an event of default occurs, the bondholders shall be entitled to demand the Bonds then outstanding to become due and payable immediately in whole but not in part.

### ***CM Facility Loan***

On June 24, 2019, we entered into a facility agreement with CM SPC, acting on behalf of CM Alternative Credit SP, as the lender, for a term loan in the aggregate principal amount of HK\$210.0 million (US\$26.8 million) (the “CM Facility Agreement”). The principal amount outstanding under the loan bears an interest of 1.388% per month. The loan has a term of two months from the date on which the loan is made. As of the date of this offering memorandum, HK\$210.0 million (US\$26.8 million) of the loan remains outstanding.

#### ***Covenants***

The CM Facility Agreement contains information undertaking and general undertaking, including notification of default, compliance with laws, listing compliance and pari passu ranking.

#### ***Events of Default***

The CM Facility Agreement contains certain customary events of default, including non-payment of principal or interest, cross default, insolvency and misrepresentation. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

## DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Skyfame Realty (Holdings) Limited (天譽置業(控股)有限公司), a company incorporated in Bermuda with limited liability, and any successor obligor on the Notes, and not to any of its Subsidiaries.

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, between the Company and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain material provisions of the Indenture and the Notes. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture and the Notes. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection during normal business hours on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

### BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- effectively subordinated to the other secured obligations (if any) of the Company, 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 Subsidiaries.

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors – Risks Relating to the Collateral,” the Notes will be secured by a pledge of the Collateral as described under “– Security” and will:

- be entitled to a first priority Lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) shared on a *pari passu* basis pursuant to the Intercreditor Agreement with holders of the Existing *Pari Passu* Secured Indebtedness and any holders of Permitted *Pari Passu* Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to 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 July 8, 2022, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “– Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued. The Notes will bear interest at 13.0% 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 January 8 and July 8 of each year (each an “Interest Payment Date”), commencing January 8, 2020.

Interest on the Notes will be paid to Holders of record at the close of business on June 23 and December 24 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. 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 Notes register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption,” “Redemption for Tax Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company). In any case in which the date of the payment of principal of, premium or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

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 by wire transfer in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying Agent, currently located at Citibank, N.A., Dublin Branch, One 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, if Notes are in certificated form and the Company acts as its own paying agent, all payments on the Notes will be made by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to the address of each Holder as such address appears in the Note register maintained by the Registrar (as defined herein). 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.

On the Original Issue Date, all of the Company’s Subsidiaries will be Restricted Subsidiaries. Subject to the covenant described under “– Certain Covenants – Limitation on Issuances of Guarantees by Restricted Subsidiaries,” none of the Company’s Subsidiaries will Guarantee the Notes.

As of December 31, 2018, the Company and its consolidated subsidiaries had total indebtedness of RMB6,362.6 million (US\$925.4 million), of which approximately RMB4,669.7 million (US\$679.2 million) was secured.

As of December 31, 2018, the Subsidiaries had total indebtedness of approximately RMB4,149.6 million (US\$603.5 million) and the Subsidiaries had capital commitments of approximately RMB2,313.9 million (US\$336.5 million) and no material contingent liabilities.

Although the Indenture contains limitations on the amount of additional Indebtedness that Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Subsidiary, the 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.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described under “– 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 of the Notes, to pledge the Capital Stock of Winprofit Investments Limited (subject to Permitted Liens and the Intercreditor Agreement) on the Original Issue Date in order to secure the obligations of the Company under the Existing Pari Passu Secured Indebtedness, the Notes and any Permitted Pari Passu Secured Indebtedness.

The value of the Collateral securing the Notes may not be sufficient to satisfy the Company's obligations under the Notes, and the Collateral securing the Notes 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 and the Intercreditor Agreement. See “– Release of Security” and “Risk Factors – Risks Relating to the Collateral.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes. By its nature, the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company 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 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) with respect to such Indebtedness (such Indebtedness of the Company, “Permitted Pari Passu Secured Indebtedness”); *provided* that (i) the Company was permitted to Incur such Indebtedness under the covenant under the caption “Limitation on Indebtedness and Preferred Stock,” (ii) the holders (or their trustee, agent or representative) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral substantially similar to and no more restrictive on the Company than the provisions of the Indenture and the Security Documents, and (iv) the Company delivers to the Trustee and the Collateral Agent (as defined below) an Opinion of Counsel and an Officers' Certificate, each 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 Security Documents, the Intercreditor Agreement or any amendment thereto or to the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of, among others, (i) the Holders, (ii) the holders of the Existing Pari Passu Secured Indebtedness and (iii) the holders of any other 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**

On the Original Issue Date, the Company, the Trustee, Citicorp International Limited, as trustee (the “2019 Bonds Trustee”) with respect to the 2019 Bonds and Citicorp International Limited, as collateral agent (the “Collateral Agent”), will enter into an intercreditor agreement dated the Original Issue Date (such intercreditor agreement, as so supplemented and amended from time to time, the “Intercreditor Agreement”). Pursuant to the Intercreditor Agreement, the 2019 Bonds Trustee and the Trustee will agree to (1) share the Collateral on an equal and ratable basis, (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral, and (3) the conditions under which their rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

In connection with any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their trustee, agent or representative) will accede to the Intercreditor Agreement and become parties to it. The Trustee, the 2019 Bonds Trustee and the holders of future Permitted Pari Passu Secured Indebtedness (or their trustee, agent or representative) are collectively referred to as the “Secured Parties.”

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 required and permitted under the Indenture.

## **Enforcement of Security**

The Lien (subject to Permitted Liens and the Intercreditor Agreement) securing the Notes will be granted to the Collateral Agent for itself and for the benefit of the Holders and the Trustee. The Collateral Agent, subject to the Intercreditor Agreement, will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents and the Intercreditor Agreement with sole authority as directed by the Trustee acting on the written instruction of the Holders to exercise remedies under the Security Documents and the Intercreditor Agreement. The Collateral Agent has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture, the Security Documents and the Intercreditor Agreement and to carry out certain other duties.

The Indenture, the Intercreditor Agreement and/or the Security Documents principally provide that, at any time while the Notes are outstanding and the Liens on the Collateral are not released pursuant to the terms of the Indenture, the Collateral Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

The Intercreditor Agreement will provide, among other things, that any Secured Party may instruct the Collateral Agent to enforce the Collateral and to deliver a notice of enforcement to the Company (such instructions, the “Enforcement Instructions”). Upon receipt of an Enforcement Instruction from any Secured Party, the Collateral Agent will provide a copy of such Enforcement Instruction and notice of enforcement to the Company and the other Secured Parties. If (a) the Collateral Agent identifies a conflict (i) between Secured Parties’ interests in connection with any Enforcement Instruction or (ii) in the event that each of the Secured Parties issues Enforcement Instructions, between those Enforcement Instructions, and (b) the Collateral Agent believes in its sole and absolute discretion that the interests of the Secured Parties would be in conflict upon the exercise of those Enforcement Instructions, or that compliance with an Enforcement Instruction would cause the Collateral Agent to contravene another Enforcement Instruction, the Collateral Agent shall notify each Secured Party in writing not more than five Business Days after it becomes aware of such conflict. In such circumstances, the Collateral Agent is not obligated to take any action if it identifies such conflict.



The Intercreditor Agreement provides that any proceeds from any sale, collection, liquidation or enforcement of the Collateral shall be distributed by the Collateral Agent in accordance with the terms of the Intercreditor Agreement and subject to the conditions of the relevant Security Document. Such proceeds shall be applied as follows:

*First*, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any unpaid fees, costs and properly incurred expenses (including properly incurred fees and expenses of its counsel) in connection with the collection or distribution of such amounts held or realized or in connection with properly incurred expenses in enforcing all available 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 Intercreditor Agreement and the Security Documents;

*Second*, to the extent not reimbursed under the above paragraph, ratably to the Trustee, the 2019 Bond Trustee and any agent, trustee or representative as a secured party for any series of Permitted Pari Passu Secured Indebtedness, to the extent necessary to reimburse the foregoing persons for any unpaid fees, costs and expenses (including expenses of any paying agents, transfer agents, registrars or other agents in connection therewith appointed in connection with the foregoing and the properly incurred fees and expenses of counsel) properly incurred under the Indenture, the Intercreditor Agreement, the Security Documents and the agreements governing any Permitted Pari Passu Secured Indebtedness in connection with the collection or distribution of such amounts held or realized or in connection with expenses properly incurred in enforcing all available remedies under the Indenture, the Intercreditor Agreement, the Security Documents and preserving the Collateral and all indemnification payments for which the foregoing persons are entitled to under the Indenture, the Intercreditor Agreement and the Security Documents;

*third, pro rata* to each of the Trustee for the benefit of the Holders, the 2019 Bonds Trustee for the benefit of the holders of the 2019 Bonds and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their trustee, agent or representative for the benefit of such holders) in accordance with the terms of the applicable secured party document; and

*fourth*, any surplus remaining after such payments will be paid to the Company 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 to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee nor the Collateral Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value, title, adequacy 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, 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 and the Intercreditor Agreement provide that the Company will indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Security Documents and/or the Intercreditor Agreement 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 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 provisions of the Intercreditor Agreement, the security created in respect of the Collateral granted under the Security Documents may be released in relation to the Notes in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption “– Defeasance – Defeasance and Discharge;”
- upon certain dispositions of the Collateral in compliance with the covenants under the captions “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “– Certain Covenants – Limitation on Asset Sales” or in accordance with the provision under the caption “– Consolidation, Merger and Sale of Assets;” or
- in whole or in part, with the requisite consent of the Holders in accordance with the provisions described under “– Amendments and Waiver.”

## FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted by the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock.”

## OPTIONAL REDEMPTION

At any time prior to July 8, 2022, 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 will be responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to July 8, 2022, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 113.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

## Selection and Notice

The Company will give not less than 15 days’ nor more than 30 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 securities exchange and/or being held through the clearing systems, in compliance with the requirements of the principal national securities exchange on which the Notes are listed and/or the requirements of the clearing systems, as applicable; or
- (2) if the Notes are not listed on any securities exchange and/or held through the clearing systems, on a pro rata basis or by lot or by such other 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 Notes or portions of them called for redemption.

#### **REPURCHASE OF NOTES AT THE OPTION OF THE HOLDERS**

The Company shall, at the option (“Put Option”) of any Holder, repurchase all of the Notes held by such Holder, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof on July 8, 2021 (the “Put Option Settlement Date”) at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the Put Option Settlement Date.

The repurchase of Notes held by a Holder under the Put Option on the Put Option Settlement Date is conditioned upon:

- (a) the delivery to the Paying Agent by such Holder of a duly completed and executed notice in the form set forth in the Indenture (the “Repurchase Notice”), which notice shall be delivered not less than 60 days nor more than 90 days prior to the Put Option Settlement Date and shall be irrevocable; and
- (b) the delivery or book-entry transfer of the Notes to the Paying Agent at any time simultaneous to or after delivery of the Repurchase Notice (together with all necessary endorsements) at the specified office of the Paying Agent at the time, such delivery being a condition to receive by such Holder of the purchase price therefor; *provided* that such purchase price shall be so paid under the Put Option only if the Notes so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Repurchase Notice.

The Paying Agent shall promptly notify the Company of the receipt by it of any Repurchase Notice.

Holders will receive payment on the later of (i) the Put Option Settlement Date and (ii) the time of book-entry transfer or the delivery of the Notes. If the Paying Agent holds money sufficient to pay the repurchase price of the Notes on the Put Option Settlement Date, then:

- the Notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the Notes is made or whether or not the Notes are delivered to the Paying Agent); and
- all other rights of the Holder will terminate (other than the right to receive the repurchase price).

Our ability to satisfy our repurchase obligations may be affected by the factors described in “Risk Factors – Risks Relating to the Notes – We may not be able to repurchase the Notes at the option of the holders of the Notes.” If we fail to repurchase the Notes when required, we will be in default under the Indenture.

#### **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 not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes 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 such purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors – Risks Relating to the Notes – We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The phrase "all or substantially all", as used with respect to the assets of the Company in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to a Change of Control Triggering Event has occurred or may occur and shall not be liable to any person for any failure to do so. The Trustee shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Company. The Trustee shall not be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for redemption and will not be responsible to the Holders for any loss arising from any failure by it to do so. The Trustee shall not be under any duty to determine, calculate or verify the redemption amount payable hereunder and will not be responsible to the Holders for any loss arising from any failure by it to do so.

#### **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 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 or a Surviving Person (as defined under “– Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, the PRC (each, as applicable, a “Relevant Jurisdiction”), or any jurisdiction through which payments are made, 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 or a Surviving Person, 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 or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
    - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
    - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company or a Surviving Person 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 or the jurisdiction through which payments are made, 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 beneficial owner; or
    - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, 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;

- (d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement 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 or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

#### **REDEMPTION FOR TAXATION REASONS**

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (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 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 is proposed and becomes effective (or in the case of an official position, is announced) (i) with respect to the Company on or after the Original Issue Date, or (ii) with respect to any Surviving Person, on or after the date such Surviving Person becomes a Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company 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 or the 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 or the 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 the 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 30 days but not more than 60 days before a redemption date:

- (1) an Officers’ Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company or such Surviving Person, as the case may be, taking reasonable measures available to it; and

- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as conclusive evidence of the satisfaction of the conditions precedent described above without further verification, in which event it shall be conclusive and binding on the Holders, and will not be responsible for any loss occasioned by acting in reliance on such certificate and opinion.

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 may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.25 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock of Restricted Subsidiaries held by the Company, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
  - (a) Indebtedness under the Notes (excluding any Additional Notes);
  - (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c) below; *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than such Indebtedness excluded from the definition of Permitted Subsidiary Indebtedness by the terms thereof);
  - (c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes;
  - (d) Indebtedness of the Company or any Restricted Subsidiary (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, 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 clause (a), (b), (f), (m), (n), (r), (s), (t), (u), (v) or (w) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums,

accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes 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, 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 (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes, 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, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, and (iii) in no event may Indebtedness of the Company be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary;

- (e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations designed to reduce or manage the exposure of the Company or any Restricted Subsidiary to fluctuations in interest rates, currencies or the price of commodities;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary (i) representing Capitalized Lease Obligations; or (ii) for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in a Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property (including the lease purchase price of land use rights) or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in a Permitted Business; *provided* that, in the case of this (ii), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property or equipment or completion of such development, construction or improvement; and *provided further* 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 such Indebtedness Incurred under this clause (f) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (n)(y), (r), (s), (t), (u), (v) and (w) below (together with any refinancings thereof) does not exceed an amount equal to 35.0% of Total Assets;
- (g) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;



- (i) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness 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;
- (j) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided*, however, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (k) (i) Guarantees by the Company of Indebtedness of any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant;
- (l) Indebtedness of the Company or any Restricted Subsidiary maturing within one year used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (l) at any time outstanding does not exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (m) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (n) (x) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (n)(x) (together with refinancings thereof) does not exceed an amount equal to 12.5% of Total Assets; or (y) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that (i) such Bank Deposit Secured Indebtedness is not permitted under clause (n)(x) above, and (ii) on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (n)(y) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (f) above and clauses (r), (s), (t), (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary becomes obligated to pay the purchase price pursuant to such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (q) Indebtedness Incurred by the Company or a Restricted Subsidiary constituting a Subordinated Shareholder Loan;

- (r) Indebtedness secured by Investment Properties or long term assets; *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 such Indebtedness Incurred under this clause (r) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f) and (n)(y) above and clauses (s), (t), (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (s) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary and the Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a Restricted Subsidiary in favor of a Trust Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Trust Company Investor on Capital Stock of a Restricted Subsidiary held by such Trust Company Investor; *provided* that, on the date of Incurrence of such Indebtedness or issuance of such Preferred Stock and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock Incurred under this clause (s) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y) and (r) above and clauses (t), (u), (v) and (w) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;
- (t) 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 (A) 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 (B) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that, on the date of the Incurrence of all such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (t) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r) and (s) above and clauses (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;
- (u) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary becomes obligated to pay such deferred purchase price pursuant to such Minority Interest Staged Acquisition Agreement; *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 such Indebtedness Incurred under this clause (u) (together with refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s) and (t) above and clauses (v) and (w) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;

- (v) 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 Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (v) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s), (t) and (u) above and clause (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets; and
  - (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 such Indebtedness Incurred under this clause (w) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s), (t), (u) and (v) above (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness or Preferred Stock meets the criteria of more than one of the types of Indebtedness or Preferred Stock described above, including under the proviso in paragraph (1) above, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness or Preferred Stock as one or more of such types.
  - (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred or Preferred Stock that may be issued pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness or Preferred Stock due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness or Preferred Stock was permitted to be Incurred or issued at the time of such Incurrence or issuance.

### **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;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes (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 “– Limitation on Indebtedness and Preferred Stock”;
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments (excluding Restricted Payments permitted by the immediately following paragraph other than clause (1) of the immediately following paragraph) made by the Company and its Restricted Subsidiaries after the Measurement 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 July 1, 2017 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
  - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a 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) repayments of loans or advances by such Person or other transfers of property, 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, or (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; plus
  - (v) US\$50.0 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 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 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 sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (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 in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (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, to all holders of any class of Capital Stock of such Restricted Subsidiary;
- (6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided* that any such cash payment shall not be for the purpose of evading the limitation of this “Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (7) 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 the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary for the purposes of any share award scheme set up for senior management or employees of the Company or any Restricted Subsidiary; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$20.0 million (or the Dollar Equivalent thereof) in any calendar year;
- (8) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between/among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, *provided* that (A) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (B) 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;

- (9) the purchase and payments made under a Staged Acquisition Agreement to acquire the Capital Stock of a Person; *provided* that such Person becomes a Restricted Subsidiary on or before the last date in the period stipulated in such Staged Acquisition Agreement for which the purchase price can be made (such date not to exceed 12 months from the date the Company or any Restricted Subsidiary becomes obligated to pay the purchase price pursuant to the Staged Acquisition Agreement);
- (10) the payment of any dividend or distribution payable or paid solely in Capital Stock (other than Disqualified Stock or Preferred Stock) of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;
- (11) dividends paid to, or the purchase of Capital Stock of the Company or any Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Measurement Date or permitted to be Incurred or issued under clause (2)(s) of the covenant described under the caption “– Limitation on Indebtedness and Preferred Stock”;
- (12) the declaration and payment of dividends on the Common Stock of the Company by the Company with respect to any financial year, to the extent such declaration and payment does not exceed 20% of the consolidated profit for the year of the Company calculated in accordance with GAAP; or
- (13) the purchase of the Capital Stock of Chongqing Hesheng Real Estate Development Company Limited in accordance with the relevant equity transfer agreements as disclosed in the announcements of the Company dated March 13, 2018 and March 15, 2018, with respect to the acquisition of certain land use rights in Chongqing;

*provided* that, in the case of clause (2), (3), (4), (10) or (13) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) to (12) 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 purpose of determining compliance with this “– Limitation on Restricted Payments” covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this covenant and paragraph (19) of the definition of “Permitted Investment” at any time, the Company, at its sole discretion, may classify and from time to time may reclassify such item of Investment in either or both of them.

## Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
  - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
  - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
  - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
  - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

*provided* that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
  - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes or the Indenture, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (b) existing under or by reason of applicable law, rule, regulation or order;
  - (c) 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, transfer or other disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “– Limitation on Indebtedness and Preferred Stock” and “– Limitation on Asset Sales” covenants or under “Consolidation, Merger and Sale of Assets”;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or Preferred Stock permitted under the “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 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 permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make the required payments on the Notes; 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 Subsidiary or its subsidiaries or the property or assets of such 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 issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made by the covenant described under “– Limitation on Restricted Payments” if made on the date of such issuance or sale and *provided* that the Company complies with the “– Limitation on Asset Sales” covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “Limitation on Asset Sales” covenant.

#### **Limitation on Issuances of Guarantees by Restricted Subsidiaries**

The Company will not permit any Restricted Subsidiary, directly or indirectly, to Guarantee any Indebtedness of the Company, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated 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 Guarantee of the Notes until the Notes have been paid in full or (2) such Guarantee are permitted by clause (2)(b), (2)(c) or (2)(n) (in the case of (2)(n), with respect to the Guarantee provided by any Restricted Subsidiary through the pledge of cash deposits, bank accounts 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) under “– Limitation on Indebtedness and Preferred Stock.”

#### **Limitation on Transactions with Shareholders and Affiliates**

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion addressed to the Trustee as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or the relevant Restricted Subsidiary than terms available to (or from, as applicable) a Person that is not an Affiliate of the Company issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or such 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 clause (1), (2) or (3) of the first paragraph of the covenant described under “– Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement, so long as each such purchase is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited;
- (6) the payment of compensation to employees, officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is approved by the Board of Directors in good faith or, if such Restricted Subsidiary is listed on a recognized stock exchange, in compliance with the listing rules of such stock exchange; or
- (7) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Company or any of its Restricted Subsidiaries with directors, officers, employees and consultants in the ordinary course of business and the payment of compensation pursuant thereto;

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary, any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries, a Minority Joint Venture or an Unrestricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary).

#### **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 (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

In the event that one or more Liens (and documents relating thereto) are to be established or maintained to effect equal and ratable security arrangements in respect of the Notes (as contemplated under the preceding paragraph) with regards to Indebtedness proposed to be or previously Incurred by the Company in compliance with the terms of the Indenture, the Company may instruct the Trustee to directly, or through its Affiliates (in its capacity as Trustee or that of a collateral agent on such terms as it shall require) and without the consent of any Holders, (a) enter into one or more intercreditor agreements, pledge agreements, collateral and security agreements or other arrangements intended to effect the shared security arrangements contemplated by this paragraph among holders of such Indebtedness and (b) complete or facilitate the completion by itself or other parties of filings, registrations or other actions necessary to effect or perfect the relevant Liens or related arrangements. The Trustee shall not incur any liability to any person for entering, or failing to enter, into one or more of such intercreditor agreements, pledge agreements, collateral and security agreements or other arrangements contemplated herein.

Notwithstanding the foregoing, 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 (other than Liens described in clauses (1), (2), (3), (10), (13) and (24) in the definition of “Permitted Liens”) on assets and properties comprising properties under development or completed properties for sale, as the case may be, in relation to the Skyfame ASEAN Tower.

#### **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, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under “– Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described under “– Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of 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 permitted by, and the Company or such Restricted Subsidiary, as applicable, applies the proceeds of such transaction in compliance with, the covenant described under “– Limitation on Asset Sales.”

#### **Limitation on Asset Sales**

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of 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) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, set-off, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or any Indebtedness of a Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly permanently reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets;

*provided* that, pending the application of Net Cash Proceeds as set forth in clause (1) or (2) of this paragraph, such Net Cash Proceeds may be temporarily invested only 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 exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

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.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to (but not including) 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 will be selected (and such other *pari passu* Indebtedness) to 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 a Permitted Business as long as any Investment therein was not prohibited when made by the covenant 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, including any adjustment in response to changes in market condition or business plans as contemplated, under “Use of Proceeds” in this offering memorandum (or in the case of Additional Notes, the offering 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**

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 for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under “– Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under “– Limitation on Liens”; (4) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (5) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “– Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under “– Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under “– Limitation on Liens”; and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary).

## **Government Approvals and Licenses; Compliance with Law**

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company to perform its obligations under the Notes or the Indenture.

## **Anti-Layering**

The Company will not Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, unless such Indebtedness is also contractually subordinated in right of payment to the Notes on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

## **Suspension of Certain Covenants**

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from the 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) “– Limitation on Indebtedness and Preferred Stock;”
- (2) “– Limitation on Restricted Payments;”
- (3) “– Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;”
- (4) “– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;”
- (5) “– Limitation on Issuances of Guarantees by Restricted Subsidiaries;”
- (6) “– Limitation on Sale and Leaseback Transactions;”
- (7) “– Limitation on Asset Sales;”
- (8) “– Limitation on the Company’s Business Activities;” and
- (9) clauses (3), (4) and (5)(x) 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 Restricted Subsidiary as an Unrestricted Subsidiary pursuant to the covenant described under “– Designation of Restricted and Unrestricted Subsidiary” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant described under “– Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

### **Provision of Financial Statements and Reports**

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's Common Stock is at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
  - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company 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 financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company 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 financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, 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 with respect to the four most recent quarterly periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on Noteholders; *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on Noteholders.

## EVENTS OF DEFAULT

The following events will be defined as “Events of Default” in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under “– Consolidation, Merger and Sale of Assets,” the failure by the Company to make or consummate an Offer to Purchase in the manner described under “– Repurchase of Notes upon a Change of Control Triggering Event” or “– Certain Covenants – Limitation on Asset Sales” or the failure by the Company to create a Lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) in accordance with the covenant described under the caption “– Security”;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Holders of 25% or more in aggregate principal amount of the Notes then outstanding or by the Trustee at the direction of such Holders;
- (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 principal payment 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 the Company’s insurance carriers have agreed to pay under applicable policies, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or for any substantial part of the property and assets of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;



- (8) the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) in the ordinary course of business that shall result in the net assets of such Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company);
- (9) any default by the Company in the performance of any of its obligations under the Security Documents or the Indenture, 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
- (10) the Company denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a security interest in the Collateral (subject to any Permitted Liens and the Intercreditor Agreement).

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 (subject to being indemnified and/or secured to its satisfaction by the Holders) shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least 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 the 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 shall, upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, 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, subject to the Intercreditor Agreement, to enforce the performance of any provision of the Notes, the Indenture or the Security Documents. 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 direction of Holders of at least 25% in aggregate principal amount of outstanding Notes subject to being indemnified and/or secured to its satisfaction, instruct the Collateral Agent to foreclose on the Collateral in accordance with the terms of the Intercreditor Agreement and 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 or is directed by the Holders of at least 25% in aggregate principal amount of outstanding Notes. See “– Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct in writing 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, subject to the Trustee being indemnified and/or secured to its satisfaction in advance of the proceedings. However, the Trustee may refuse to follow any direction that conflicts with law or regulations or the Indenture or the Security Documents, or that may involve the Trustee in personal liability and may take any other action it deems proper that is not inconsistent with any written direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written direction to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with written 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/or security; 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 written direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company’s and its Restricted Subsidiaries’ performance under the Indenture and the Security Documents and 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 or defaults in the performance of any covenants or agreements under the Indenture and the Security Documents. See “– Certain Covenants – Provision of Financial Statements and Reports.”

None of the Trustee, the Collateral Agent or any Agent is obliged to take any actions to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and, each of the Trustee, the Collateral Agent and the Agents may assume that no such event has occurred and that the Company is performing all its obligations under the Indenture, the Intercreditor Agreement, the Security Documents and the Notes unless the Trustee, the Collateral Agent or the Agents, as the case may be, has received written notice of the occurrence of such event or facts establishing that the Company is not performing all of its obligations under the Indenture, the Intercreditor Agreement, the Security Documents and the Notes and specifying each default and the nature and status thereof. The Trustee and the Collateral Agent is entitled to conclusively rely, without liability, on any Opinion of Counsel or Officers' Certificate regarding whether an Event of Default or Default has occurred.

## **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 or surviving 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 Bermuda, the British Virgin Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company 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 "– 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.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

## **NO PAYMENTS FOR CONSENTS**

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not institutional “accredited investors” as defined in Rule 501 under the Securities Act, and (ii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

## **DEFEASANCE**

### **Defeasance and Discharge**

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents 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 for 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 to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee (a) either (x) an Opinion of Counsel of recognized international standing with respect to U.S. federal tax laws which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company’s exercise of its option under this “Defeasance and Discharge” provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel, and (b) 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 or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

### **Defeasance of Certain Covenants**

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (6) under “– Consolidation, Merger and Sale of Assets” and all the covenants described herein under “– Certain Covenants,” other than as described under “– Certain Covenants-Government Approvals and Licenses; Compliance with Law” and “– Certain Covenants-Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (6) under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

### **Defeasance and Certain Other Events of Default**

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

## **AMENDMENTS AND WAIVER**

### **Amendments Without Consent of Holders**

The Indenture, the Notes, the Security Documents and the Intercreditor Agreement may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Security Documents or the Intercreditor Agreement; *provided* that such actions pursuant to this clause (1) do not materially and adversely affect the interests of the Holders;
- (2) comply with the provisions described under “– Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee or a successor Collateral Agent;

- (4) add any Guarantee with respect to the Notes;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) provide collateral, add additional collateral to secure the Notes, any Guarantee of the Notes or enter into any intercreditor agreement in accordance with the Indenture;
- (7) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (9) make any other change that does not materially and adversely affect the rights of any Holder;
- (10) conform the text of the Indenture or the Notes 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 or the Notes; or
- (11) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Collateral Agent to enter into the Intercreditor Agreement or any amendments to the Security Documents, the Intercreditor Agreement or the Indenture, the appointment of any collateral agent under any Intercreditor Agreement to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness and taking 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).

#### **Amendments With Consent of Holders**

Amendments of the Indenture, the Notes, the Security Documents or the Intercreditor Agreement may be made by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture, the Notes, the Security Documents or the Intercreditor Agreement; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or premium, if any, 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;
- (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) 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;

- (8) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “– Certain Covenants – Limitation on Asset Sales”;
- (9) change the redemption date or the redemption price of the Notes from that stated under “– Optional Redemption” or “– Redemption for Taxation Reasons” or change the time, manner or put price of the Notes by which a Put Option may be made from that stated under the caption “– Repurchase of Notes at the Option of Holders of the Notes;”
- (10) amend, change or modify the obligation of the Company to pay Additional Amounts;
- (11) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes in a manner which adversely affects the Holders;
- (12) release any Collateral, except as provided in the Indenture, the Intercreditor Agreement and the Security Documents;
- (13) amend, change or modify any provision of any Security Document, the Intercreditor Agreement or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture, such Security Document or such Intercreditor Agreement.

#### **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 in the Indenture or in the Notes or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, 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. Such waiver may not be effective to waive liabilities under the federal securities laws.

#### **CONCERNING THE TRUSTEE AND THE AGENTS**

Citicorp International Limited is to be appointed as Trustee under the Indenture. Citibank, N.A., London Branch is to be appointed as registrar (the “Registrar”) and as paying and transfer agent (the “Paying Agent” and, together with the Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture and the Notes. 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 or the Notes 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 instructed the Trustee in writing and offered to the Trustee security and/or indemnity satisfactory to it against loss, liability or expense.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Each Holder of the Notes, by accepting the Notes agrees, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the offering of the Notes, and has not relied on, and will not at any time rely on, the Trustee in respect of such risks.

Citicorp International Limited will initially act as collateral agent under the Security Documents in respect of the security over the Collateral and under the Intercreditor Agreement. 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 Intercreditor Agreement and the Security Documents. Under certain circumstances, the Collateral Agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders. The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement or any of the Security Documents for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee that it is solely responsible for its own independent appraisal of 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 in respect of such risks.

## **BOOK-ENTRY; DELIVERY AND FORM**

The Notes will be represented by one or more global notes in registered form without interest coupons attached (the “Global Note”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

## **GLOBAL NOTE**

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee, the Agents or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.



## **PAYMENTS ON THE GLOBAL NOTE**

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the paying agent in U.S. dollars. The paying agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “– Additional Amounts.”

Under the terms of the Indenture, the Company, the Trustee and the Agents will treat the registered holder of the Global Note (i.e., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

## **REDEMPTION OF GLOBAL NOTE**

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

## **ACTION BY OWNERS OF BOOK-ENTRY INTERESTS**

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

## **TRANSFERS**

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

## **GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM**

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

## **INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM**

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 Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

## **INDIVIDUAL DEFINITIVE NOTES**

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “– Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or a Holder, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by or on behalf of the Registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

## **NOTICES**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Company) addressed to the Company at the principal office of the Company or such other address as the Company may advise the Trustee in writing from time to time, (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.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

## **CONSENT TO JURISDICTION; SERVICE OF PROCESS**

The Company 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, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

## **GOVERNING LAW**

Each of the Notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York. The share charge pursuant to “– Security” will be governed under the laws of the British Virgin Islands, the jurisdiction of incorporation of Winprofit Investments Limited, the entity whose Capital Stock is charged.

## **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.

“2019 Bonds” means the 10.0 per cent. bonds due 2019 issued by the Company on August 30, 2018.

“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 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 July 8, 2022, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step child, parent or step parent, brother, sister, step brother or step sister, parent in law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of such Notes on July 8, 2022, plus all required remaining scheduled interest payments due on such Note through July 8, 2022 (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 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 and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales or other dispositions of cash and Temporary Cash Investments;
- (3) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “Limitation on Restricted Payments” covenant;
- (4) 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;
- (5) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (6) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien not prohibited by the “Limitation on Liens” covenant;
- (7) a transaction covered by the “Consolidation, Merger and Sale of Assets” covenant; and
- (8) 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.

“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, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by cash deposits, bank accounts or other assets of the Company or a Restricted Subsidiary and/or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange foreign currencies or remit money onshore or offshore.

“Board of Directors” means the board of directors 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, the PRC 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 or exchangeable 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.

“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 merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company 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;
- (2) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (3) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least a majority of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) 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 pursuant to the Security Documents, and shall initially consist of the Capital Stock of Winprofit Investments Limited.

“Commodity Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to manage or reduce exposure to fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to July 8, 2022 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to July 8, 2022.

“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 received by the Company) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP and gains on disposals of Capital Stock of any Restricted Subsidiary which holds Investment Properties),

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 or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), only to the extent such interest has become due and payable under such Guarantee or security by the Company or any Restricted Subsidiary and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
  - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
  - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or any Restricted Subsidiary;
- (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 realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.



*provided* that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any 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 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 “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”) or (4) otherwise altering the terms and conditions thereof.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after 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 date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable (or options, warrants or other rights exercisable for) Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after 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 Restricted Subsidiary from the Company or another Restricted 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 *bona fide* underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any *bona fide* 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 placement price, in each case under clause (i) or (ii) *provided* such public offering or private placement is to a person other than a Restricted Subsidiary or Permitted Holder; *provided* that any offering or placement 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 Permitted Pari Passu Secured Indebtedness” means the 2019 Bonds.

“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.

“Fitch” means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

“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 may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged 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 (d) or (e) 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 generally accepted accounting principles in Hong Kong, as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase or redemption price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person, shall be deemed to be “Indebtedness.”

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, Entrusted Loans, pre-sale receipts in advance from customers or similar obligations, Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* 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 paragraph 2(e) under the “Limitation on Indebtedness and Preferred Stock” covenant or (ii) equal to the net amount payable by such Person if such Hedging Obligation was terminated at or prior to that time if not Incurred pursuant to such clause.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Intercreditor Agreement” has the meaning set forth under “– Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent Guaranteed by such Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportionate interest in

the Fair Market Value of the assets (net of the Company's proportional 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, (2) if the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of, and (3) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for Fitch.

"Investment Property" means any property that is owned and held by the Company or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both or for self use, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

"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).

"Measurement Date" means August 30, 2018.

"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 or securities convertible or exchangeable into 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 mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the tender agent (the “Tender 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 Tender Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Tender Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted. 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 Tender Agent shall as soon as practicable mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall as soon as practicable authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with all applicable securities laws and regulations, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company and the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the directors or executive officers of the Company.

“Officers' Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means a written opinion from legal counsel who is acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under “– Repurchase of Notes upon a Change of Control,” or an Offer to Purchase in the manner described under “– Certain Covenants – Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Business” means any business which is the same or related, ancillary or complementary to any of the business of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. YU Pan;
- (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) 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) and (2).



“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 solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;
- (7) receivables owing to the Company or any Restricted Subsidiary (x) if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms or (y) if created or acquired in the ordinary course of business in connection with any sale or disposal of any asset of the Company or any Restricted Subsidiary, which receivable shall be paid within 24 months after the creation or acquisition thereof;
- (8) Investments consisting of consideration received in connection with an Asset Sale made in compliance with the covenant described under “– 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 “– 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 or prepaid expenses on the Company’s consolidated balance sheet;
- (13) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (14) 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 property or land use rights by the Company or any Restricted Subsidiary, in each case in the ordinary course of business;

- (15) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company's consolidated balance sheet;
- (16) Guarantees permitted by the covenant described under the caption entitled "– Limitation on Indebtedness and Preferred Stock";
- (17) 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;
- (18) repurchases of the Notes;
- (19) 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 which is primarily engaged in the Permitted Business (other than a Restricted Subsidiary), *provided* that:
  - (i) the aggregate of all Investments made under this clause (19) since the Original Issue Date, shall not exceed in aggregate an amount equal to 15.0% of Total Assets. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (19) 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 of an obligation of any such Person, or
    - (C) to the extent that an Investment made after the Original Issue Date under this clause is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause;
  - (ii) no Default has occurred and is continuing or would occur as a result of such Investment; and
  - (iii) the Company or such Restricted Subsidiary owns, directly or indirectly, no less than 20% of the voting power of the outstanding Voting Stock of the Person into which such Investment is made (after giving effect to such Investment).

For the avoidance of doubt, the value of each Investment made pursuant to this clause (19) shall be valued at the time such Investment is made; and

- (20) Investments in asset management or similar investment products with maturities of over one year having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), taken together with all other Investments made pursuant to this clause (20) that are at the time outstanding, not to exceed an amount equal to 5.0% of Total Assets.

“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, utility services, developer’s or other obligations to make site or off-site improvements and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and Incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (2)(e) of the covenant described under “– 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)(d) of the covenant described under “– 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) any interest or title of a lessor in the property subject to any operating lease;
- (14) 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;
- (15) 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)(f) of the covenant under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item, *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property and improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recently 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 (15) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (16) 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;
- (17) Liens securing Indebtedness permitted to be Incurred under clause (2)(l) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (18) Liens securing Indebtedness permitted to be Incurred under clause (2)(m) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (19) Liens made to secure Bank Deposit Secured Indebtedness permitted to be Incurred under clause (2)(n) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (20) Liens Incurred 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 to be Incurred under clause (2)(o) or (2)(u) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (21) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee permitted to be Incurred under clause (2)(p) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (22) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary permitted to be Incurred under clause (2)(r) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;

- (23) 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 (including acquisition of Capital Stock of a Restricted Subsidiary which holds the real property or land use rights) by the Company or any Restricted Subsidiary in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (24) 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;
- (25) Liens Incurred on deposits made to secure Entrusted Loans;
- (26) Liens granted by the Company or a Restricted Subsidiary in favor of a Trust Company Investor in respect of, and to secure, the Indebtedness permitted under clause (2)(s) of the covenant described under “– Certain Covenants-Limitation on Indebtedness and Preferred Stock”;
- (27) Liens securing Indebtedness which is permitted to be Incurred under clause (2)(t), (2)(v) or (2)(w) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (28) Liens under the Security Documents; and
- (29) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “Security – Permitted Pari Passu Secured Indebtedness”;

*provided* that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (28) and (29) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “Security – Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *provided* that, on the date of the Incurrence of such Indebtedness and after giving *pro forma* effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness or issuance of such Preferred Stock, as the case may be (excluding, without duplication, any Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (c), (e) and (p) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 20.0% of Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, which shall for the purpose of these Conditions only, exclude Hong Kong Special Administrative Region of the People’s Republic of China, Macau Special Administrative Region of the People’s Republic of China 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 (as most recently amended on November 4, 2017) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995 (as most recently amended on November 17, 2017), as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“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.

“Rating Agency” means Fitch, provided that if Fitch shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency selected by the Company, which shall be substituted for Fitch.

“Rating Category” means (1) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (2) the equivalent of any such category of Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” or “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Fitch, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under “– Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after the date of public notice of the occurrence of a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency) of any of the events listed below, or (2) in connection with actions contemplated under “– 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 by the Rating Agency and are rated below Investment Grade on the Rating Date by the Rating Agency, 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).

“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 of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. New York City time on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale that are used in a Permitted Business or (2) property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon acquisition by the Company or any Restricted Subsidiary of such Capital Stock, become a Restricted Subsidiary.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its 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.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, the share charge and any other agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent for the benefit of the Trustee and/or any Holders and/or holders of Permitted Pari Passu Secured Indebtedness in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to the Notes; *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 Restricted Subsidiary” means a Restricted Subsidiary 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.

“Skyfame ASEAN Tower” means the 346-meter building to be named as the Skyfame ASEAN Tower (天譽東盟塔) currently being constructed in Skyfame Nanning ASEAN Maker Town (天譽南寧東盟創客城).

“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 in such debt security as the fixed date on which the final installment of principal, and premium, if any, 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, and premium, if any, 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 which is contractually subordinated or junior in right of payment to the Notes, 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 (i) is subordinated in right of payment to the Notes, (ii) 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, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity of which (i) 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) 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (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 corporation, association or other business entity equal to the Fair Market Value of the Capital Stock of such corporation, association or other business entity held by such Person immediately after the occurrence of such event, which shall be made in compliance with the “– Limitation on Restricted Payments” covenant.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the United Kingdom, the PRC and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the United Kingdom, the PRC 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, 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, any state of the European Economic Area, the United Kingdom or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;



- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P or 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, 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;
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with, any bank, trust company or other financial institution organized under the laws of the PRC or anywhere the Company or any Restricted Subsidiary conducts business operations; and
- (8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC 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)(f) 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 in each case as of such date, as measured by the purchase price or cost therefor or 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.

“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 financial institution, including but not limited to a bank, a trust company, a securities management company, an asset management company, a fund management company, a financial management company, or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director ‘s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

## TAXATION

*The following summary of certain Bermuda and PRC tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.*

### BERMUDA

#### Bermuda Taxation

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of the Notes. We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

#### Stamp Duty

The Company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies).

### PRC

#### Income Tax

Under the EIT Law and the Implementation Rules, both of which took effect on January 1, 2008 and amended on February 24, 2017 and December 29, 2018, respectively, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered as “PRC resident enterprises.” The Implementation Rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

The Company holds its shareholders’ meeting and board meetings outside China and keeps its shareholders’ list outside China. However, most of the Company’s directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for PRC tax purposes.

Although it is unclear under PRC tax law whether the Company has a “de facto management body” located in China for PRC tax purposes, the Company intends to take the position that it is not a PRC resident enterprise for PRC tax purposes. The Company cannot assure you that tax authorities will respect its position. As of the date of this offering memorandum, we have not been notified or informed by the PRC tax authorities that we are considered as a PRC resident enterprise for the purpose of the EIT Law and its implementation regulations. If the Company is deemed to be a PRC resident enterprise for enterprise income tax purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed a qualified PRC resident enterprise. Furthermore, the Company would be obligated to withhold PRC income tax from

payments of interest on the Notes to investors that are non-resident enterprises or non-resident individuals, generally at the rate of 10% or 20% respectively (unless a lower rate is applicable), because the interest would be regarded as income derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors from the transfer of the Notes may be regarded as income derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% (unless a lower rate is applicable).

### **Value Added Tax**

On March 23, 2016, the MOF and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (the “Circular 36”) which confirms that business tax was replaced by value-added tax from May 1, 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, value added tax.

According to Circular 36 Notice, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to value-added tax include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of “loans” under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Company, which thus shall be regarded as financial services subject to the value-added tax.

It is not clear from the interpretation of Circular 36 if the provision of loans to the Company could be considered services provided within the PRC, which could be regarded as the provision of financial services that could be subject to VAT. Furthermore, there is no assurance that the Company will not be treated as “resident enterprises” under the EIT Law. PRC tax authorities could take the view that the holders of the Notes are providing loans within the PRC because the Company is treated as a PRC tax resident. In such case, the issuance of the Notes could be regarded as the provision of financial services within the PRC that is subject to VAT.

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 the value-added tax 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 value-added tax payment and consequently, the combined rate of value-added tax and local levies would be around 6.72%. Given that the Company pays interest income to the holders of the Notes who are located outside of the PRC, the Company, acting as the obligatory withholder in accordance with applicable law, shall withhold the value-added tax and local levies from the payment of interest income to holders of the Notes who are located outside of the PRC.

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

Given Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. Accordingly, there is uncertainty as to the application of Circular 36.

### **Stamp Duty**

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside the PRC and the issuance and the sale of the Notes is made outside of the PRC).

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum between the Company and China Investment Securities International Brokerage Limited, Dongxing Securities (Hong Kong) Company Limited, China Everbright Securities (HK) Limited, Future Land Resources Securities Limited, Wilson Securities Limited, CM Securities (Hongkong) Company Limited and Morton Securities Limited as the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally and not jointly agreed to purchase the principal amount of the Notes set forth opposite their respective names below.

Initial Purchaser	Principal Amount of the Notes
China Investment Securities International Brokerage Limited .....	US\$ 25,000,000
Dongxing Securities (Hong Kong) Company Limited.....	US\$ 20,000,000
China Everbright Securities (HK) Limited.....	US\$ 20,000,000
Future Land Resources Securities Limited.....	US\$ 10,000,000
Wilson Securities Limited.....	US\$ 10,000,000
CM Securities (Hongkong) Company Limited .....	US\$ 10,000,000
Morton Securities Limited .....	US\$ 10,000,000
<b>Total</b> .....	<b>US\$105,000,000</b>

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The purchase agreement may be terminated by the Initial Purchasers in certain circumstances prior to the delivery and payment of the Notes. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum only outside the United States in offshore transactions in reliance of Regulation S under the Securities Act. The price at which the Notes are offered may be changed at any time without notice. The Company will pay the Initial Purchasers customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with the offering.

The Company has agreed with the Initial Purchasers that it will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

Our chairman and chief executive officer, Mr. YU Pan, may purchase a small portion of the Notes being offered under this offering memorandum.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

We have agreed that, for a period of 20 days from the date of the purchase agreement, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge, otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any of its subsidiaries, directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by the Company (other than the Notes and any debt securities offered primarily in the PRC).

The Notes will constitute a new class of securities with no established trading market.

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that we will ultimately obtain such listing or that we will be able to maintain such listing or that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable. The Initial Purchasers have advised us that it currently intends to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days, purchasers who wish to trade the Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, the Initial Purchasers and/or their respective affiliates may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any of our other securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

## **SELLING RESTRICTIONS**

### **General**

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### **United States**

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

## **EEA**

Each of the Initial Purchasers represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Insurance Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom.

## **Hong Kong**

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

## Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). 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 under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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 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 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 of Singapore.

Notification under Section 309B(1)(c) of the SFA – The Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA)) that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## PRC

Each of the Initial Purchasers has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, and the Notes may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC, except as permitted by the applicable laws and regulations of the PRC.



## Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the Notes be distributed in Italy, except:

- (i) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “**Financial Services Act**”) and as defined in Article 34-ter, first paragraph, letter b) of *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) Regulation No. 11971 of May 14, 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Legislative Decree No. 385 (the “**Banking Act**”), the Financial Services Act of September 1, 1933, as amended, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and any other applicable law and regulations; and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other Italian authority.

## Bermuda

No offer or invitation may be made to the public in Bermuda to subscribe for the Notes. The Initial Purchasers represent, warrant and agree that they have not offered or sold, and will not offer or sell, any Notes to the public in Bermuda and will procure that any purchaser of the Notes from them will comply with such prescription.

## British Virgin Islands

No offer or invitation may be made to the public in the British Virgin Islands to subscribe for any of the Notes. The Notes have not been and will not be offered or sold in the British Virgin Islands.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to another exemption from 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. As used herein, the term “United States” has the meaning given to it in Regulation S.

By its purchase of the Notes, 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 it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is outside the United States;
3. acknowledged that the Notes have not been and will not be registered under the Securities Act and that the Notes may not be offered or sold within the United States except pursuant to registration under the Securities Act, or in transactions exempted from, or not subject to, the registration requirements of the Securities Act;
4. agreed that it will inform each person to whom it transfers the Notes of any restrictions on the transfer of such Notes;
5. acknowledged that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represented that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agreed that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from us;
6. represented that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act;
7. acknowledged that the Notes will be represented by the Global Note; and
8. acknowledged that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

You also acknowledge that the Company, the Transfer Agent, the Registrar and the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. You agree that if any of the acknowledgements, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify the Company, the Transfer Agent, the Registrar and the Initial Purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

## **RATINGS**

The Notes are expected to be assigned a rating of B- by Fitch. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not 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. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a corporate family rating of B- (Stable) by Fitch. 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.

## **LEGAL MATTERS**

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law, Conyers Dill & Pearman as to matters of Bermuda law and British Virgin Islands law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Shearman & Sterling as to matters of United States federal and New York law and Deheng Law Office as to matters of PRC law.

## **INDEPENDENT ACCOUNTANTS**

Our audited consolidated financial statements as of and for each of the three years ended December 31, 2016, 2017 and 2018 included in this offering memorandum had been audited by BDO Limited Certified Public Accountants, as stated in their reports appearing herein, and in our annual reports for the years ended December 31, 2017 and 2018.

For the purpose of the offers and sales outside the United States in reliance on Regulation S, BDO Limited Certified Public Accountants has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

## GENERAL INFORMATION

### CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda and Hong Kong in connection with the issue and performance of the Notes. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our Board of Directors dated June 27, 2019.

### 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.

### NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2018 that is material in the context of the issue of the Notes.

### DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Company.

### CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

ISIN	Common Code
XS2022224047	202222404

Only Notes evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

### LISTING OF THE NOTES

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, or the Notes. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

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

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Page references included in the unaudited condensed consolidated financial information for the audited consolidated financial statements for each of the years ended December 31, 2016, 2017 and 2018 set forth above refer to pages in such unaudited condensed consolidated financial information or audited consolidated financial statements as appeared in our annual reports for the years ended December 31, 2017 and 2018, as the case may be. These annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

## INDEPENDENT AUDITOR'S REPORT



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### TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED

*(incorporated in Bermuda with limited liability)*

#### OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 92 to 217, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## INDEPENDENT AUDITOR'S REPORT

### **Carrying value of properties under development and properties held for sale**

The Group held several property projects and had entered into several arrangements during the year ended 31 December 2018 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties under development and properties held for sale as at 31 December 2018 were RMB7,554 million and RMB4,144 million respectively.

For the properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 22 and 23 in the consolidated financial statements.

### **How our audit addressed the key audit matter:**

Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;
- Discussing with the management and understanding the details of the properties development projects;
- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;
- Checking to payment advices and verifying the amounts paid;
- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties under development and properties held for sale;
- Evaluation of the independent external valuers' competence, capabilities and objectivity;

## INDEPENDENT AUDITOR'S REPORT

- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

### Valuation of investment properties

Management estimated the fair value of the Group's investment properties to be RMB2,907 million at 31 December 2018, with a revaluation gain of RMB66 million and gain on properties valuation of RMB203 million for the year ended 31 December 2018 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

### How our audit addressed the key audit matter:

Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

### OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

### DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## INDEPENDENT AUDITOR'S REPORT

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**

*Certified Public Accountants*

**Chan Wing Fai**

*Practising Certificate no. P05443*

Hong Kong, 22 March 2019

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>Revenue</b>	7	<b>6,191,763</b>	4,080,514
Cost of sales and services		<b>(4,305,878)</b>	(3,197,387)
Gross profit		<b>1,885,885</b>	883,127
Other income and gains, net		<b>7,662</b>	34,100
Sales and marketing expenses		<b>(156,851)</b>	(152,913)
Administrative and other expenses		<b>(305,691)</b>	(219,828)
Unrealised exchange (losses)/gains		<b>(74,171)</b>	111,909
Impairment loss on trade and other receivables		<b>(5,721)</b>	–
Impairment loss on loan to a non-controlling shareholder of a subsidiary		<b>(524)</b>	–
Fair value changes in investment properties	17	<b>66,405</b>	35,701
Gain on properties valuation	17	<b>203,297</b>	353,351
Impairment loss on goodwill	18	<b>(13,554)</b>	–
Gain from bargain purchase	40(c)	<b>81,214</b>	–
Share of loss of joint venture, net of tax		<b>(8,101)</b>	–
Fair value changes in derivative financial asset/liabilities		<b>(1,476)</b>	13,080
Gain on early repayment of unsecured bonds		<b>1,979</b>	–
Loss on early repayment of term loans		–	(23,418)
Finance costs	8	<b>(53,920)</b>	(33,088)
Finance income	8	<b>17,669</b>	36,483
<b>Profit before income tax</b>	9	<b>1,644,102</b>	1,038,504
Income tax expenses	13	<b>(823,346)</b>	(491,232)
<b>PROFIT FOR THE YEAR</b>		<b>820,756</b>	547,272
<b>Other comprehensive income, items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences arising on foreign operations		<b>(4,043)</b>	2,827
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>816,713</b>	550,099
<b>Profit for the year attributable to:</b>			
– Owners of the Company	14	<b>751,315</b>	550,460
– Non-controlling interests		<b>69,441</b>	(3,188)
		<b>820,756</b>	547,272
<b>Total comprehensive income for the year attributable to:</b>			
– Owners of the Company		<b>747,272</b>	553,287
– Non-controlling interests		<b>69,441</b>	(3,188)
		<b>816,713</b>	550,099
			(Restated)
<b>Earnings per share</b>	14		
– Basic		<b>RMB0.095</b>	RMB0.070
– Diluted		<b>RMB0.092</b>	RMB0.069

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	16	693,859	239,497
Investment properties	17	2,907,157	1,094,400
Goodwill	18	–	13,554
Interest in a joint venture	20	15,899	–
Financial asset at fair value through profit or loss	19	10,000	–
Available-for-sale investment	19	–	10,000
Loan to a non-controlling shareholder of a subsidiary	25	–	52,900
Derivative financial assets	33	60,388	46,144
Deferred tax assets	35	25,649	18,142
		<b>3,712,952</b>	<b>1,474,637</b>
<b>Current assets</b>			
Properties held for development	22	–	488,072
Properties under development	22	7,554,327	3,552,378
Properties held for sale	23	4,144,040	3,754,243
Loan to a non-controlling shareholder of a subsidiary	25	51,847	–
Trade and other receivables	26	1,611,504	1,200,792
Prepayment/deposits for proposed projects for sale	27	994,928	1,385,269
Contract costs	2	80,698	–
Short-term investments	28	–	100,000
Restricted and pledged deposits	29	676,630	1,313,264
Cash and cash equivalents	30	2,410,063	2,983,799
		<b>17,524,037</b>	<b>14,777,817</b>
<b>Current liabilities</b>			
Trade and other payables	31	2,058,288	1,374,346
Contract liabilities	2	8,559,878	–
Properties pre-sale deposits	2	–	7,821,274
Bank and other borrowings – current portion	33	2,817,188	1,171,198
Derivative financial liabilities – current portion	33	2,138	–
Amount due to a joint venture	34	55,817	–
Consideration payable	40(c)	50,000	–
Income tax payable		251,998	137,192
		<b>13,795,307</b>	<b>10,504,010</b>
<b>Net current assets</b>		<b>3,728,730</b>	<b>4,273,807</b>
<b>Total assets less current liabilities</b>		<b>7,441,682</b>	<b>5,748,444</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Non-current liabilities</b>			
Bank and other borrowings			
– non-current portion	33	3,534,510	3,104,096
Derivative financial liabilities			
– non-current portion	33	8,757	12,333
Deferred tax liabilities	35	594,856	253,388
		<u>4,138,123</u>	<u>3,369,817</u>
<b>Net assets</b>		<u>3,303,559</u>	<u>2,378,627</u>
<b>Capital and reserves</b>			
Share capital	36	24,659	24,469
Reserves	37	2,888,766	2,301,560
<b>Equity attributable to owners of the Company</b>		<u>2,913,425</u>	<u>2,326,029</u>
<b>Non-controlling interests</b>		<u>390,134</u>	<u>52,598</u>
<b>Total equity</b>		<u>3,303,559</u>	<u>2,378,627</u>

On behalf of the Board

**YU Pan**  
*Director*

**WANG Chenghua**  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes	Attributable to owners of the Company													Total
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Share held for share award scheme reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/capital reserve	Retained profits	Sub-total	Non-controlling interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2017	24,456	1,662,587	16,116	19,178	-	(293,095)	6,471	(1,441)	743	330,094	1,765,109	34,859	1,799,968	
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	550,460	550,460	(3,188)	547,272	
Other comprehensive income	-	-	-	-	-	-	-	2,827	-	-	2,827	-	2,827	
Total comprehensive income/(expenses) for the year	-	-	-	-	-	-	-	2,827	-	550,460	553,287	(3,188)	550,099	
Issue of shares: Exercise of share options	38	13	2,162	-	(727)	-	-	-	-	-	1,448	-	1,448	
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	25,529	25,529	
Recognition of equity-settled share-based payment expenses	38	-	-	-	6,185	-	-	-	-	-	6,185	-	6,185	
Dividend paid to non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	(4,602)	(4,602)	
At 31 December 2017 and 1 January 2018	24,469	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	880,554	2,326,029	52,598	2,378,627	
Effect on adoption of HKFRS 9	2	-	-	-	-	-	-	-	-	(3,645)	(3,645)	-	(3,645)	
Effect on adoption of HKFRS 15	2	-	-	-	-	-	-	-	-	21,222	21,222	-	21,222	
At 1 January 2018 (restated)	24,469	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	898,131	2,343,606	52,598	2,396,204	
Profit for the year	-	-	-	-	-	-	-	-	-	751,315	751,315	69,441	820,756	
Other comprehensive expenses	-	-	-	-	-	-	-	(4,043)	-	-	(4,043)	-	(4,043)	
Total comprehensive (expenses)/income for the year	-	-	-	-	-	-	-	(4,043)	-	751,315	747,272	69,441	816,713	
Issue of shares: Exercise of share options	38	190	26,924	-	(9,498)	-	-	-	-	-	17,616	-	17,616	
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	11	11	
Arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	268,084	268,084	
Recognition of equity-settled share-based payment expenses	38	-	-	-	5,709	-	-	-	-	-	5,709	-	5,709	
Purchase of shares for share award scheme	39	-	-	-	-	(114,691)	-	-	-	-	(114,691)	-	(114,691)	
Dividend and distributions	-	-	-	-	-	-	-	-	-	(86,087)	(86,087)	-	(86,087)	
At 31 December 2018	24,659	1,691,673	16,116	20,847	(114,691)	(293,095)	6,471	(2,657)	743	1,563,359	2,913,425	390,134	3,303,559	



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Notes</i>	<b>2018</b> <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Net cash from operating activities</b>	<i>40(a)</i>	<b>2,402,802</b>	972,514
<b>Investing activities</b>			
Interest received		17,669	42,543
Acquisition of subsidiaries, net of cash acquired	<i>40(c)</i>	<b>(481,369)</b>	–
Purchases of property, plant and equipment		<b>(18,505)</b>	(9,273)
Acquisition of assets		<b>(193,973)</b>	–
Investments in a joint venture		<b>(24,000)</b>	–
Advanced from a joint venture		55,817	–
Purchase of short-term investments		–	(951,000)
Proceeds from short-term investments		100,000	851,000
Decrease/(increase) in restricted and pledged deposits		<b>636,634</b>	(325,974)
Net cash from/(used in) investing activities		<b>92,273</b>	(392,704)
<b>Financing activities</b>	<i>40(b)</i>		
Purchase of ordinary shares for share award scheme	<i>39</i>	<b>(114,691)</b>	–
Proceeds from issue of ordinary shares for share option scheme	<i>38</i>	17,616	1,448
Proceeds from bank and other borrowings		<b>4,797,745</b>	5,158,509
Repayment of bank and other borrowings		<b>(6,797,103)</b>	(2,587,677)
Other borrowing costs paid		<b>(76,296)</b>	(106,819)
Interest paid		<b>(796,598)</b>	(1,879,589)
Dividend paid to owners of the Company		<b>(86,087)</b>	–
Dividend paid to non-controlling interests		–	(4,602)
Capital contributions from non-controlling interests of subsidiaries		2,712	25,529
Net cash (used in)/from financing activities		<b>(3,052,702)</b>	606,799
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(557,627)</b>	1,186,609
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(16,109)</b>	2,750
<b>Cash and cash equivalents at beginning of year</b>		<b>2,983,799</b>	1,794,440
<b>Cash and cash equivalents at end of year</b>	<i>30</i>	<b>2,410,063</b>	2,983,799

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 1. GENERAL

Skyfame Realty (Holdings) Limited (the “**Company**”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Its (a) registered office, (b) head office and principal place of business in the People’s Republic of China (“**PRC**”), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company’s parent is Grand Cosmos Holdings Limited (“**Grand Cosmos**”) and the directors of the Company (the “**Directors**”) consider its ultimate holding company is Sharp Bright International Limited (“**Sharp Bright**”). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the “**BVI**”).

The Company and its subsidiaries are hereinafter collectively referred to as the “**Group**”. The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

#### (a) Adoption of new/revised HKFRSs

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

#### *Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation’s permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

##### *HKFRS 9 – Financial Instruments*

#### (i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 January 2018 as follows (increase/(decrease)):

	<i>RMB'000</i>
<hr/>	
<i>Retained profits</i>	
Retained earnings as at 1 January 2018	
(before application of HKFRS 9 but after application of HKFRS 15)	901,776
Increase in expected credit losses (“ECLs”) in trade receivables ( <i>note 2(a)(ii)(I) below</i> )	(90)
Increase in ECLs in loan to a non-controlling shareholder of a subsidiary ( <i>note 2(a)(ii)(II) below</i> )	(529)
Increase in ECLs in other receivables ( <i>note 2(a)(ii)(III) below</i> )	(3,026)
	<hr/>
Restated retained earnings as at 1 January 2018	898,131
	<hr/>

There is no significant impact in relation to the transition of HKFRS 9 on the opening balance of non-controlling interests as of 1 January 2018.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *HKFRS 9 – Financial Instruments (continued)*

##### (i) Classification and measurement of financial instruments (continued)

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“**amortised costs**”); (ii) financial assets at fair value through other comprehensive income (“**FVOCI**”); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “**solely payments of principal and interest**” criterion, also known as “**SPPI criterion**”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *HKFRS 9 – Financial Instruments (continued)*

##### (i) Classification and measurement of financial instruments (continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group’s financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### HKFRS 9 – Financial Instruments (continued)

##### (i) Classification and measurement of financial instruments (continued)

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 RMB’000	Carrying amount as at 1 January 2018 under HKFRS 9 RMB’000
Other investment (note)	Available-for-sale (at fair value)	FVTPL	10,000	10,000
Other loans and receivables	Loans and receivables (note 2(a)(ii)(III))	Amortised cost	52,900	52,371
Trade receivables and other receivables	Loans and receivables (note 2(a)(ii)(I)&(III))	Amortised cost	1,200,792	1,199,338
Refundable deposits for proposed projects and land held for development	Loans and receivables (note 2(a)(ii)(IV))	Amortised cost	771,060	771,060
Restricted and pledged deposits	Loans and receivables	Amortised cost	1,313,264	1,313,264
Cash and cash equivalents	Loans and receivables	Amortised cost	2,983,799	2,983,799

##### Note:

Other investment represents the units issued by a fund with cash flow characteristics that do not meet the SPPI test. The Group had previously designated it as available-for-sale under HKAS 39. At the date of initial application of HKFRS 9, the Group has elected to reclassify it as FVTPL.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *HKFRS 9 – Financial Instruments (continued)*

##### (ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “expected credit losses (“ECLs”) model”. HKFRS 9 requires the Group to recognised ECL for trade and other receivables and financial assets at amortised costs earlier than HKAS 39. Restricted and pledge deposits and cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

##### *Measurement of ECLs*

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 30 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### HKFRS 9 – Financial Instruments (continued)

#### (ii) Impairment of financial assets (continued)

##### Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

##### Impact of the ECL model

#### (i) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance for trade receivables as at 1 January 2018 was determined as follows:

1 January 2018	Current	1 – 3 months past due	3 months – 1 year past due	More than 1 year past due	Total
Expected credit loss rate (%)	0.1%	2%	5%	10%	
Gross carrying amount (RMB)	1,370,000	380,000	542,000	539,000	2,831,000
Loss allowance (RMB)	(1,370)	(7,600)	(27,100)	(53,900)	(89,970)

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB90,000. The loss allowances further increased by RMB4,824,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### HKFRS 9 – Financial Instruments (continued)

#### (ii) Impairment of financial assets (continued)

##### Impact of the ECL model (continued)

#### (II) Impairment of debt investments

All of the Group’s other debt investments at amortised costs, loan to a non-controlling shareholder of a subsidiary, is considered to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12 months ECLs.

The loss allowance for loan to a non-controlling shareholder of a subsidiary as at 1 January 2018 was determined as follows:

#### 1 January 2018

Expected credit loss rate (%)	1%
Gross carrying amount (RMB)	52,900,000
Loss allowance (RMB)	(529,000)

The increase in loss allowance for debt investment upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB529,000. The loss allowances further increased by RMB524,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.

#### (III) Impairment of other receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all other receivables. To measure the ECLs, other receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance for other receivables as at 1 January 2018 was determined as follows:

1 January 2018	Current	1 – 3 months past due	3 – 6 months past due	6 months – 1 year past due	More than 1 year past due	Total
Expected credit loss rate (%)	0.1%	1%	3%	5%	20%	
Gross carrying amount (RMB)	75,016,936	10,234,323	4,661,814	864,816	13,327,267	104,105,156
Loss allowance (RMB)	(75,017)	(102,343)	(139,855)	(43,241)	(2,665,453)	(3,025,909)

The increase in loss allowance for other receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB3,026,000. The loss allowances further increased by RMB897,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *HKFRS 9 – Financial Instruments (continued)*

#### (ii) Impairment of financial assets (continued)

##### *Impact of the ECL model (continued)*

#### (IV) Impairment of refundable deposits for proposed projects and land held for development

Other financial assets of the Group include refundable deposits for proposed projects and land held for development at amortised cost is considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs. The directors considered that the loss allowance for the Group’s refundable deposits for proposed projects and land held for development under 12 months ECLs are insignificant and no provision is made.

#### (iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

#### (iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held; and
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")*

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The following tables summarised the impact, net of tax, of transition to HKFRS 15 on the opening balances of retained earnings as follows (increase/(decrease)):

	HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Contract costs (note 1)	–	21,222	21,222
Contract liabilities (note 2)	–	7,821,274	7,821,274
Properties pre-sale deposits (note 2)	7,821,274	(7,821,274)	–
Retained earnings	876,909	21,222	898,131

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (continued)

The following tables summarised the impact of adopting HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and OCI for the year ended 31 December 2018. There was no material impact on the Groups’ consolidated statement of cash flow for the year ended 31 December 2018:

Impact on the consolidated statement of financial position as of 31 December 2018

	As at 31 December 2018		
	Amounts		
	without the	Effects of the	Amounts as
	adoption of	adoption of	reported
	HKFRS 15	HKFRS 15	reported
	RMB’000	RMB’000	RMB’000
Consolidated statement of financial position (extract)			
Contract costs (note 1)	–	80,698	80,698
Contract liabilities (note 2)	–	8,559,878	8,559,878
Properties pre-sale deposits (note 2)	8,559,878	(8,559,878)	–
Retained earnings	1,483,980	79,379	1,563,359
Non-controlling interests	388,815	1,319	390,134

*Note 1:* Prior to the adoption of HKFRS 15, the Group charged sales commission as expense associated with obtaining agreements for sale and purchase with property buyers to profit or loss when incurred.

Upon the adoption of HKFRS 15, management expects the incremental costs, primarily sale commission, incurred directly attributable to obtaining the property sale contracts, if recoverable, are capitalised as assets and included in contract costs. Capitalised sales commission is charged to profit or loss when the revenue from the related property sale is recognised and is included as sales and marketing expenses at that time. Prepaid sales commission of RMB21,222,000 that was previously recognised in profit or loss has been adjusted to retained earnings as at 1 January 2018.

*Note 2:* The Group has also changed the presentation of the following amounts in the statement of financial position to reflect the terminology of HKFRS 15:

- Contract liabilities in relation to property sales contracts were previously included in properties pre-sale deposits of RMB7,821,274,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

*HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (continued)*

The impact on the consolidated statement of profit or loss and other comprehensive income (increase/(decrease)) for the year ended 31 December 2018:

	As at 31 December 2018		
	Hypothetical		
	amounts without	Effects of the	Amounts as
	the adoption of	adoption of HKFRS	reported
	HKFRS 15	15	
	RMB'000	RMB'000	RMB'000
Consolidated statement of profit or loss and OCI (extract)			
Sales and marketing expenses	216,327	(59,476)	156,851
Profit for the year	757,237	59,476	816,713
Attributable to:			
Owners of the Company	689,115	58,157	747,272
Non-controlling interests	68,122	1,319	69,441

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s property development and management segments are set out below:

Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Property development	Customers obtain control of the property units when customers obtains the physical possession or the legal title of properties are transferred to and the collection of the consideration is probable. Revenue is thus recognised upon when the customers accept the property units so transferred. In addition, it is the Group’s practice to provide standard decoration to customers to maintain the properties’ quality, therefore, decoration provision is also considered as a performance obligation by practice.	Upon the adoption of HKFRS 15, the Group has to make reclassification from deposits received for sales of properties to contract liabilities and an increase in retained earnings of RMB21,222,000 was recognised for the sale commission which incurred directly attributable to obtaining a contract is capitalised and recorded in contract costs.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

*HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)*

Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
	<p><b>Financing component</b> Should the contract contain a significant financing component, the transaction price should reflect the time value of money.</p> <p>The Group is not required to consider the time value of money if the period between payment and the transfer of the property unit is one year or less, as a practical expedient. In assessing whether a contract contains a significant financing component, the Group considers various factors, including the length of time between when the Group expected to transfer the property unit to the customer and when the customer pays for them, and the interest rate in the contract and prevailing interest rates in the relevant market.</p> <p>For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects of a financing component, if significant. The Group has assessed that the financing component effect was insignificant.</p> <p><b>Right of return</b> No right of return is noted from the Group's contract with customers.</p>	<p>There is no financing component considered necessary by the Group.</p>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

*HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (continued)*

Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Property management	<p>For property management services contracts, the Group recognises revenue equal to the right to invoice amount when it corresponds directly with the value to the customer of the Group’s performance to date, on a monthly basis. The Group has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts. The majority of the property management service contracts do not have a fixed term.</p> <p><b>Financing component</b> Should the contract contain a significant financing component, the transaction price should reflect the time value of money.</p> <p>The Group is not required to consider the time value of money if the period between payment and the transfer of the property unit is one year or less, as a practical expedient. In assessing whether a contract contains a significant financing component, the Group considers various factors, including the length of time between when the Group expected to transfer the property unit to the customer and when the customer pays for them, and the interest rate in the contract and prevailing interest rates in the relevant market.</p> <p>For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects or a financing component, if significant. The Group has assessed that the financing component effect was insignificant.</p> <p><b>Right of return</b> No right of return is noted from the Group’s contract with customers.</p>	<p>The Group has assessed that revenue is recognised when relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the Group’s performance. The Group bills a fixed amount for each month for services 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. Thus, the Group has concluded that the adoption of HKFRS 15 does not have an impact on the timing of revenue recognition.</p> <p>There is no financing component considered necessary by the Group.</p>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

##### *HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

#### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKAS 19	Plan amendment, curtailment or settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs <sup>1</sup>
Amendments to HKAS 1 and HKAS 8	Definition of material <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2020.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.
- <sup>4</sup> The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

#### *HKFRS 16 – Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

#### *HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments*

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

##### *Amendments to HKFRS 9 – Prepayment Features with Negative Compensation*

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

##### *Amendments HKAS 19 Plan Amendment, Curtailment or Settlement*

Amendments to HKAS 19 address the accounting for a defined benefit plan when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to (i) determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event, and (ii) determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability or asset, reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability or asset.

The amendments also clarify that an entity first determines any past service cost, or gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized on profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognized in other comprehensive income. The Group expects to adopt the amendments to plan amendments, curtailments or settlements occurring on or after 1 January 2019. The standard is not expected to have any impact on the Group.

##### *Amendments to HKAS 28*

The amendment clarifies that HKFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

##### *Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

##### *Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

##### *Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

##### *Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

##### *Amendments to HKAS 1 and HKAS 8*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group’s financial statements.

##### *HKFRS 17 – Insurance Contracts*

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

*Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

### 3. BASIS OF PREPARATION

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties, other investment and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

#### (c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

#### (d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company and its principal subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Business combination and basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

#### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the net assets of the joint arrangement; or
- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

#### (e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs 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 recognised in profit or loss during the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Property, plant and equipment (continued)

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

#### (f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from inventories to investment properties, any difference between the fair value of the property at the date and its previous carrying amount is recognised in the statement of profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Properties under development

Properties under development are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

#### (h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

Properties held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

#### (i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (j) Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when whose costs meet all of the following criteria:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) The costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)A Financial instruments (accounting policies applied from 1 January 2018)

For the year ended 31 December 2018, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (including contract costs and financial guarantee contracts) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits as at 1 January 2018, without restating comparative information.

#### (i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

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. The Group only has the following type of debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows and the cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

##### (i) *Financial assets (continued)*

###### Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

##### (ii) *Impairment loss on financial assets*

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, contract costs, financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract costs using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

##### (ii) *Impairment loss on financial assets (continued)*

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 30 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

##### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

##### Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

##### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

##### (v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

##### (vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4(j); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

##### (vii) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)B Financial instruments (accounting policies applied until 31 December 2017)

##### (i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

##### Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

##### (ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

##### (ii) *Impairment loss on financial assets (continued)*

###### For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset

###### Available-for-sale investments

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

##### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

###### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

##### (iii) *Financial liabilities (continued)*

###### Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

##### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

##### (v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

##### (vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

##### (vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

#### (l) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m)A Revenue recognition (accounting policies applied from 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes. 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:

##### (i) Sales of properties

Revenues are recognised when or as the control of the asset is transferred to the customer. 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 customer; or
- creates and enhances an asset that the customer 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 customer obtains control of the asset.

For property development and sales contract for which the control of the property is transferred at a point in time and there is no enforceable right to payment from the customers for performance completed to date, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m)A Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(ii) *Property investment*

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) *Property management*

Under HKFRS 15, property management service income derived from the provision of property management services is recognised when the relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. 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.

(iv) *Commercial operation*

In the Group's youth communities development projects that also serve the living needs of home buyers, the Group engages in commercial operations covering currently co-work places and medical care in a hospital being built that will be extended in entertainment and education. Revenue from these operations is accounted for on work places rented on a straight-line basis over the terms of the relevant leases and income earned from contractors servicing to the co-workplaces workers when the relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

(v) *Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.*

#### (m)B Revenue recognition (accounting policies applied until 31 December 2017)

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (o) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Employee benefits

##### (i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

##### (ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

##### (iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

#### (q) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Shares held for share award scheme

Where the shares of the Company are acquired under the Share Award Scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to "Shares held for Share Award Scheme", and the related employment costs of the awarded shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the awarded is transferred to retained profits.

Where the Shares held for Share Award Scheme are revoked and the revoked shares are disposed of, the related gain or loss is transferred to retained profits, and no gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

Where the cash or non-cash dividend distribution is declared in respect of the shares held for Share Award Scheme, the cash or fair value of the non-cash dividend is transferred to retained profits, and no gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

#### (s) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model;
- investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale))

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (u) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

##### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

##### *The Group as lessee*

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

#### (v) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (v) Related parties (continued)

- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (w) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

#### (a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### (b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax 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 have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

#### (c) Land appreciation taxes

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

#### (d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

#### (e) Prepayments/Deposits for proposed projects for sale

Management of the Group assesses the carrying amounts of prepayments/deposits for proposed projects for sale according to their recoverable amounts based on the realisability of these property development projects, taking into account estimated net sales values based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION

#### UNCERTAINTY (continued)

##### (f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

##### (g) Impairment of financial assets measured at amortised cost

Management estimates the amount of loss allowance for ECL on financial assets that are measured at amortised cost based on the credit risk of the respective financial asset. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial asset. The assessment of the credit risk of the respective financial asset involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

##### (h) Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties held by the Group in Hong Kong and the PRC are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties held by the Group in Hong Kong as those investment properties in Hong Kong are not subject to any income taxes on change to the fair value of the investment properties. However, for those investment properties in the PRC, the deferred taxes on change in fair value of investment properties are recognised taking into account LAT and enterprise income tax payable upon sales of those investment properties in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### (h) Deferred taxation on investment properties (continued)

Critical judgments in applying accounting policies are as follows:

##### (a) Acquisition of projects

During the year ended 31 December 2018 and 2017, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

##### (b) Control through contractual arrangement

Notwithstanding the lack of equity ownership in 雲南安化房地產開發有限責任公司 (Yunnan Anhua Property Development Company Limited\*) ("Yunnan Anhua"), under the cooperative agreements entered into by the cooperative partner, an independent third party, of the project during 2018, the Group is able to control, recognise and receive the economic benefits of the business of Yunnan Anhua on the grounds that the Group (1) shall have all requisite power and unrestricted rights, acting as a principal, to control and manage all aspects, at its sole decision and its own benefit, over Yunnan Anhua by virtue of the power of attorney; (2) shall have right to share profits of Yunnan Anhua; and (3) shall be obliged to make financial support to the project company. In view of the foregoing reasons, the Group has determined that it has the practical ability to unilaterally direct the relevant activities of Yunnan Anhua and receive significant benefits of a scaled service fee and residual profits distributed up to 50% of distributable profits derived from Yunnan Anhua, and therefore has consolidated Yunnan Anhua as a wholly-owned subsidiary.

During the year ended 31 December 2018, the Group contributed RMB150,000,000 to Yunnan Anhua as initial contribution and has provided RMB180,000,000 for profit guarantee in Yunnan Anhua to the shareholder of Yunnan Anhua. The directors considered that the possible obligation from the Group to provide the profit guarantee in Yunnan Anhua is low. Hence, no financial liability is recognised as at 31 December 2018.

\* *English name is for identification purpose only.*

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is operating in four principal operating divisions, i.e. property development, property investment, property management services and commercial operations in youth community projects. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

- Property development – Property development and sale of properties
- Property investment – Property leasing
- Property management – Provision of property management services
- Commercial operations – Provision of services in youth community development projects

The provision of services in youth community development projects namely as "commercial operations" which do not meet any of the quantitative threshold under HKFRS 8, and is considered as individual reporting segment and separately disclosed as the Chief Operating Decision Maker ("CODM"). This segment information is useful to users of the financial statements as the nature of services in youth community development projects is distinct to other reporting segments.

The CODM monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, additions to properties held for/under development and capital expenditure.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial asset/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Commercial operation RMB'000	Total RMB'000
<b>Year ended 31 December 2018</b>					
<b>Segment revenue</b>					
Reportable segment revenue	6,122,384	27,965	61,180	8,385	6,219,914
Elimination of intra-segment revenue	–	(8,375)	(19,776)	–	(28,151)
<b>Consolidated revenue from external customers</b>	<b>6,122,384</b>	<b>19,590</b>	<b>41,404</b>	<b>8,385</b>	<b>6,191,763</b>
<b>Timing of revenue recognition</b>					
At a point in time	6,122,384	–	–	–	6,122,384
Transferred over time	–	–	41,404	–	41,404
Revenue from other sources	–	19,590	–	8,385	27,975
<b>Total</b>	<b>6,122,384</b>	<b>19,590</b>	<b>41,404</b>	<b>8,385</b>	<b>6,191,763</b>
<b>Segment results</b>	<b>1,461,332</b>	<b>7,479</b>	<b>(19,528)</b>	<b>(2,791)</b>	<b>1,446,492</b>
<i>Reconciliation:</i>					
Unallocated corporate net expenses					(89,658)
					1,356,834
Fair value changes in investment properties	–	66,405	–	–	66,405
Gain on properties valuation	–	203,297	–	–	203,297
Impairment loss on trade and other receivables					(5,721)
Impairment loss on loan to a non-controlling shareholder of a subsidiary					(524)
Impairment loss on goodwill	(13,554)	–	–	–	(13,554)
Gain from bargain purchase					81,214
Share of loss of joint venture					(8,101)
Fair value changes in derivative financial asset/liabilities					(1,476)
Gain on early repayment of unsecured bonds					1,979
Finance costs					(53,920)
Finance income					17,669
<b>Consolidated profit before income tax</b>					<b>1,644,102</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 6. SEGMENT REPORTING (continued)

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Commercial operation RMB'000	Total RMB'000
<b>Other segment information:</b>					
Depreciation and amortisation	(2,103)	(481)	(1,836)	(952)	(5,372)
Additions to properties under development	2,510,449	-	-	-	2,510,449
Capital expenditure	1,337	-	561	15,391	17,289
<b>As at 31 December 2018</b>					
<b>Assets and liabilities</b>					
<b>Assets</b>					
Reportable segment assets	14,030,468	3,784,592	47,941	425,585	18,288,586
<i>Reconciliation:</i>					
Interest in a joint venture					15,899
Derivative financial assets					60,388
Financial asset at fair value through profit or loss					10,000
Deferred tax assets					25,649
Cash and cash equivalents					2,410,063
Unallocated restricted and pledged deposits					45,410
Unallocated corporate assets					
– Leasehold land and building					221,398
– Other corporate assets					159,596
Consolidated total assets					21,236,989
<b>Liabilities</b>					
Reportable segment liabilities	11,544,400	59,487	26,786	90,494	11,721,167
<i>Reconciliation:</i>					
Consideration payable					50,000
Income tax payable					251,998
Amount due to a joint venture					55,817
Deferred tax liabilities					594,856
Derivative financial liabilities					10,895
Unallocated bank and other borrowings					5,237,847
Unallocated corporate liabilities					10,850
Consolidated total liabilities					17,933,430



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 6. SEGMENT REPORTING (continued)

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
<b>Year ended 31 December 2017</b>				
<b>Segment revenue</b>				
Reportable segment revenue	4,042,763	25,504	42,146	4,110,413
Elimination of intra-segment revenue	–	(7,895)	(22,004)	(29,899)
<b>Consolidated revenue from external customers</b>	<b>4,042,763</b>	<b>17,609</b>	<b>20,142</b>	<b>4,080,514</b>
<b>Segment results</b>	<b>655,580</b>	<b>6,767</b>	<b>(23,332)</b>	<b>639,015</b>
<i>Reconciliation:</i>				
Unallocated corporate net expenses				17,380
				656,395
Fair value changes in investment properties	–	35,701	–	35,701
Gain on properties valuation	–	353,351	–	353,351
Loss on early repayment of term loans				(23,418)
Fair value changes in derivative financial asset/liabilities				13,080
Finance costs				(33,088)
Finance income				36,483
<b>Consolidated profit before income tax</b>				<b>1,038,504</b>
<b>Other segment information:</b>				
Depreciation and amortisation	(1,786)	(768)	(1,777)	(4,331)
Additions to properties held for/under development	2,505,692	–	–	2,505,692
Capital expenditure	3,476	–	340	3,816

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 6. SEGMENT REPORTING (continued)

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
<b>As at 31 December 2017</b>				
<b>Assets and liabilities</b>				
<b>Assets</b>				
Reportable segment assets	10,427,908	1,850,264	40,556	12,318,728
<i>Reconciliation:</i>				
Derivative financial assets				46,144
Available-for-sale investment				10,000
Short-term investments				100,000
Deferred tax assets				18,142
Cash and cash equivalents				2,983,799
Unallocated restricted and pledged deposits				456,511
Unallocated corporate assets				
– Leasehold land and building				190,409
– Other corporate assets				128,721
Consolidated total assets				16,252,454
<b>Liabilities</b>				
Reportable segment liabilities	10,913,563	64,145	19,434	10,997,142
<i>Reconciliation:</i>				
Income tax payable				137,192
Deferred tax liabilities				253,388
Derivative financial liabilities				12,333
Unallocated bank and other borrowings				2,463,795
Unallocated corporate liabilities				9,977
Consolidated total liabilities				13,873,827

#### Information about major customers

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2018 and 2017.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 7. REVENUE

Revenue represents the amounts arising on sales of properties, rental income from the operating leases of investment properties, provision of property management services and income received from commercial operations in youth community projects. The amounts of each significant category of revenue recognised during the year are as follows:

	2018 RMB'000	2017 RMB'000
Sale of properties	6,122,384	4,042,763
Rental income	19,590	17,609
Property management services	41,404	20,142
Commercial operations	8,385	–
	<u>6,191,763</u>	<u>4,080,514</u>

### 8. FINANCE COSTS AND INCOME

	2018 RMB'000	2017 RMB'000
<b>Finance costs:</b>		
Interest on bank and other borrowings	543,841	314,888
Less: Amount capitalised as properties under development	(498,415)	(281,822)
	45,426	33,066
Other borrowing costs	15,214	17,725
Less: Amount capitalised as properties under development	(6,720)	(17,703)
	8,494	22
Finance costs charged to profit or loss	<u>53,920</u>	<u>33,088</u>
<b>Finance income:</b>		
Bank interest income	11,230	24,953
Interest income on short-term investments	3,873	8,884
Interest income on loan to a non-controlling shareholder of a subsidiary	2,566	2,646
Finance income credited to profit or loss	<u>17,669</u>	<u>36,483</u>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.1% (2017: 8.4%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 9. PROFIT BEFORE INCOME TAX

Profit before income tax for the year has been arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Cost of properties sold		4,283,215	3,054,029
Write-down of properties under development/properties held for sale		–	131,299
Cost of inventories recognised in profit or loss		4,283,215	3,185,328
Staff costs, including directors' emoluments	10	203,200	132,701
Auditor's remuneration			
– current year		2,131	1,206
– non-audit services		1,178	–
Depreciation of property, plant and equipment	16	18,949	13,460
Less: Amount capitalised as properties under development	22	(78)	(127)
Depreciation charged to profit or loss		18,871	13,333
Amortisation of leasehold land	16	3,407	3,407
Depreciation and amortisation charged to profit or loss		22,278	16,740
Minimum lease payments under operating lease in respect of:			
– rented other premises		2,038	1,136
Unrealised exchange losses/(gains)		74,171	(111,909)
Direct operating expenses arising from investment properties that generated rental income		4,036	2,630
Direct operating expenses arising from investment properties that did not generate rental income		235	48

### 10. STAFF COSTS

	2018 RMB'000	2017 RMB'000
<b>Staff costs (including directors' emoluments) comprise:</b>		
Basic salaries and other benefits	159,640	105,444
Bonuses	66,200	62,281
Equity-settled share-based payment expenses	5,709	6,185
Contributions to defined contribution pension plans	8,552	6,165
	240,101	180,075
Less: Amount capitalised as properties under development	(36,901)	(47,374)
Staff costs charged to profit or loss	203,200	132,701

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000 (note (a))	Bonuses RMB'000 (note (b))	Equity-settled share-based payment expenses RMB'000 (note (c))	Contributions to defined contribution pension plan RMB'000	Total RMB'000
<b>2018</b>						
<b>Executive directors</b>						
YU Pan	-	2,138	2,552	-	15	4,705
WEN Xiaobing	101	1,936	2,502	561	85	5,185
WONG Lok	-	223	-	-	11	234
WANG Chenghua (appointed on 22 October 2018)	-	1,563	-	-	12	1,575
<b>Non-executive director</b>						
LIU Juan (appointed on 22 October 2018)	-	-	-	-	-	-
LI Weijing (resigned on 22 October 2018)	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
CHOY Shu Kwan	202	-	-	63	-	265
CHENG Wing Keung, Raymond	202	-	-	63	-	265
CHUNG Lai Fong	202	-	-	63	-	265
	<b>707</b>	<b>5,860</b>	<b>5,054</b>	<b>750</b>	<b>123</b>	<b>12,494</b>
<b>2017</b>						
<b>Executive directors</b>						
YU Pan	-	2,228	691	-	16	2,935
WEN Xiaobing	104	1,747	913	809	73	3,646
WONG Lok	-	231	-	-	11	242
JIANG Jing (resigned on 25 April 2017)	35	238	-	-	23	296
<b>Non-executive director</b>						
LI Weijing (appointed on 7 August 2017)	-	-	-	-	-	-
ZHONG Guoxing (resigned on 20 July 2017)	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
CHOY Shu Kwan	209	-	-	52	-	261
CHENG Wing Keung, Raymond	209	-	-	52	-	261
CHUNG Lai Fong	209	-	-	52	-	261
	<b>766</b>	<b>4,444</b>	<b>1,604</b>	<b>965</b>	<b>123</b>	<b>7,902</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap.32.

Notes:

- (a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.
- (b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.
- (c) The Group has to estimate the expected percentage of grantees that will stay within the Group at the end of vesting periods (the "Expected Retention Rate") of the shares option scheme in order to determine the amount of share-based compensation expenses charged to profit or loss. As at 31 December 2018, the Expected Retention Rate was assessed to be 100% (2017: 100%).
- (d) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the year are not included in note 12 below.
- (e) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 38 to the financial statements. Further details of the options granted are set out in Note 38.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

### 12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2017: one) are Director whose emoluments is included in note 11 above. The emoluments of the remaining three (2017: four) are as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Basic salaries and other benefits	5,320	6,306
Bonuses	6,502	9,610
Equity-settled share-based payment expenses	1,347	2,137
Contributions to defined contribution pension plans	165	233
	13,334	18,286

Their emoluments are within the following bands:

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 12. FIVE HIGHEST PAID INDIVIDUALS (continued)

	Number of individuals	
	2018	2017
RMB3,067,001 to RMB3,505,000 (equivalent to HK\$3,500,001 to HK\$4,000,000)	1	1
RMB3,943,001 to RMB4,381,000 (equivalent to HK\$4,500,001 to HK\$5,000,000)	1	–
RMB4,381,001 to RMB4,819,000 (equivalent to HK\$5,000,001 to HK\$5,500,000)	–	1
RMB5,257,001 to RMB5,695,000 (equivalent to HK\$6,000,001 to HK\$6,500,000)	–	2
RMB5,695,001 to RMB6,133,000 (equivalent to HK\$6,500,001 to HK\$7,000,000)	1	–

Their emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2018	2017
RMBNil to RMB438,000 (equivalent to HK\$Nil to HK\$500,000)	1	–
RMB438,001 to RMB876,000 (equivalent to HK\$500,001 to HK\$1,000,000)	1	–
RMB1,314,001 to RMB1,752,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	–	2
RMB3,067,001 to RMB3,505,000 (equivalent to HK\$3,500,001 to HK\$4,000,000)	3	2
RMB3,943,001 to RMB4,381,000 (equivalent to HK\$4,500,001 to HK\$5,000,000)	1	–
RMB4,381,001 to RMB4,819,000 (equivalent to HK\$5,000,001 to HK\$5,500,000)	–	1
RMB5,695,001 to RMB6,133,000 (equivalent to HK\$6,500,001 to HK\$7,000,000)	1	1

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 13. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Current tax</b>		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	453,862	198,341
PRC LAT		
– current year	373,129	170,814
	826,991	369,155
<b>Deferred tax</b>		
– current year	(3,645)	122,077
Total income tax expenses	823,346	491,232

No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 (2017: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2017: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2017: 25%) of the estimated assessable profits and withholding tax on dividend declared by a PRC subsidiary.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit before income tax	<b>1,644,102</b>	1,038,504
Tax calculated at the applicable income tax rate of 25% (2017: 25%)	<b>411,026</b>	259,626
Effect of different tax rates of entities operating in other jurisdictions	<b>(29,197)</b>	10,309
Tax effect of expenses not deductible for tax purposes	<b>134,803</b>	107,536
Tax effect of revenue not subject to tax	<b>(113,337)</b>	(10,214)
Tax effect of tax losses not recognised	<b>14,598</b>	(41,857)
Tax effect of LAT	<b>372,773</b>	104,233
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	<b>16,475</b>	39,975
Under-provision in respect of prior years	<b>(1,515)</b>	3,650
Tax effect of other temporary differences not recognised	<b>17,720</b>	18,455
Others	-	(481)
Income tax expense	<b>823,346</b>	491,232

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2018 and 2017 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments resulting to new shares issued due to the exercises of share options during the years. For comparison purpose, the number of ordinary shares for 2017 takes into account the subdivision of shares happened on 22 October 2018, details of which are stated in "Share Subdivision" in the succeeding section, assuming that the subdivision takes place at the beginning of the year 2017.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2018 and 2017 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect of the exercise of the Company's outstanding share options under the 2005 Scheme and 2015 Scheme, and assuming the exercise is made at no consideration at the beginning of the periods.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit for the purposes of calculation of basic and diluted earnings per share	<u>751,315</u>	<u>550,460</u>
	<b>Number of shares</b>	
	<b>'000</b>	<b>'000</b>
		<i>(Restated)</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>7,892,360</b>	7,849,606
Effect of dilutive potential ordinary shares from share options (2005 Scheme) <i>(Note 38(a))</i>	<b>52,373</b>	29,731
Effect of dilutive potential ordinary shares from share options (2015 Scheme) <i>(Note 38(b))</i>	<b>216,482</b>	<u>54,774</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>8,161,215</b>	<u>7,934,111</u>
		<i>(Restated)</i>
Basic	<b>RMB0.095</b>	RMB0.070
Diluted	<b>RMB0.092</b>	<u>RMB0.069</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 15. DIVIDENDS

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend proposed after the end of the year of HK\$0.023 (approximately RMB0.020) per ordinary share (2017: HK\$0.013 approximately RMB0.010)	<b>160,000</b>	78,543

At the meeting held on 22 March 2019, the directors proposed a final dividend of HK\$0.023 (approximately RMB0.020) (2017: HK\$0.013 approximately RMB0.010) per ordinary share of the Company for the year ended 31 December 2018. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2018, but will be reflected as an appropriation for the year ending 31 December 2019.

For comparison purpose, dividend per share for 2017 is based on the number of issued shares then existing assuming the subdivision of shares took place on the date when the 2017 dividend was proposed.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>					
At 1 January 2017	279,082	13,315	9,582	–	301,979
Additions	–	6,759	2,514	–	9,273
Written off/disposals	–	(33)	–	–	(33)
Exchange differences	(5,504)	(292)	(251)	–	(6,047)
At 31 December 2017 and at 1 January 2018	<b>273,578</b>	<b>19,749</b>	<b>11,845</b>	–	<b>305,172</b>
Additions (note)	–	2,023	1,199	15,283	18,505
Acquired through acquisition of subsidiaries (note)	11,755	2,458	1,362	397,244	412,819
Transfer from investment properties (Note 17)	42,409	–	–	–	42,409
Written off/disposals	–	(21)	(604)	–	(625)
Exchange differences	5,830	224	185	–	6,239
At 31 December 2018	<b>333,572</b>	<b>24,433</b>	<b>13,987</b>	<b>412,527</b>	<b>784,519</b>
<b>Accumulated depreciation</b>					
At 1 January 2017	36,088	8,205	6,296	–	50,589
Depreciation for the year	9,458	2,476	1,526	–	13,460
Amortisation for the year	3,407	–	–	–	3,407
Written off/disposals	–	(33)	–	–	(33)
Exchange differences	(1,403)	(197)	(148)	–	(1,748)
At 31 December 2017 and at 1 January 2018	<b>47,550</b>	<b>10,451</b>	<b>7,674</b>	–	<b>65,675</b>
Acquired through acquisition of a subsidiary (note)	86	954	410	–	1,450
Depreciation for the year	13,910	3,461	1,578	–	18,949
Amortisation for the year	3,407	–	–	–	3,407
Written off/disposals	–	(21)	(604)	–	(625)
Exchange differences	1,526	186	92	–	1,804
At 31 December 2018	<b>66,479</b>	<b>15,031</b>	<b>9,150</b>	–	<b>90,660</b>
<b>Net book value</b>					
At 31 December 2018	<b>267,093</b>	<b>9,402</b>	<b>4,837</b>	<b>412,527</b>	<b>693,859</b>
At 31 December 2017	226,028	9,298	4,171	–	239,497

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 16. PROPERTY, PLANT AND EQUIPMENT (continued)

Note:

The Group acquired 70% equity interest in a project company which had land and construction-in progress at the date of acquisition on 31 August 2018. The net assets of the project company at the date of acquisition was RMB284,614,000, which mainly comprised of RMB397,244,000 of construction-in-progress and RMB110,467,000 of construction loans payable. The consideration of RMB199,230,000 was determined at 70% of the net assets of the project company. The project company, holding the development right of a hospital located in Nanning, which provides integrated western medical services to the general public living in the district, started the construction in November 2017. Costs of construction of RMB15,283,000 had been incurred from the date of acquisition. The vendor is a subsidiary of 綠景控股股份有限公司, a listed company in the Shenzhen Stock Exchange in which 22.65% shareholding is held by a company beneficially owned by the Company's controlling shareholder, Yu Pan.

Additions of RMB11,755,000, RMB1,430,000 and RMB1,362,000 of leasehold land and building, furniture, fixture and equipment and motor vehicle were acquired respectively through an acquisition of a subsidiary as at 31 March 2018. Details are set out at note 40(c).

### 17. INVESTMENT PROPERTIES

	Notes	2018 RMB'000	2017 RMB'000
At beginning of year		1,094,400	588,370
Additions	(a)	51,690	–
Acquired through acquisition of a subsidiary (Note 40(c))	(b)	1,163,000	–
Transfer to property, plant and equipment	(c)	(42,409)	–
Transfer from properties under development (Note 22)	(d)	365,211	–
Transfer from properties held for sale (Note 23)	(e)	–	125,649
Gain on valuations		203,297	353,351
Changes in fair value		66,405	35,701
Exchange differences		5,563	(8,671)
At end of year		2,907,157	1,094,400

Details of assessment of the fair value are set out in Note 24.

Notes

- (a) During the year ended 31 December 2018, the Group has acquired eight units of commercial office in Guangzhou with fair value of RMB51,690,000 from an independent third party for earning rental income.
- (b) The investment properties consist of land and properties under construction located in the PRC. Under the requirement of one of the land transfer contracts for development in phase 2 of the land use right, the project company has to retain 70% G.F.A. of the developed commercial properties, representing an aggregate G.F.A. of 248,800 sq.m.. In the opinion of the directors of the Company, it will be developed into serviced apartments which will be held for long term investment purpose pursuant to the aforesaid requirement of the land transfer contract.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 17. INVESTMENT PROPERTIES (continued)

Notes (continued)

- (c) At the date of transfer, 1 January 2018, a Hong Kong office building with fair value of RMB42,409,000 which previously held for earning rental income was occupied by the Group as offices and hence was transferred from investment properties to property, plant and equipment. The directors of the Company considered that the fair value of the office building approximated the carrying value as at 1 January 2018.
- (d) In June 2018, a tower in Zhoutouzui Project, consisting of GFA of 10,500 sq. m., was built up and contracted to a renounced hotel operator for the operation of serviced apartments under a tenancy agreement for a term of 20 years commencing 30 March 2019 or the date of final inspection of completion, whichever is the later, at a fixed monthly rental of RMB1,840,000 for the first rental period of 25 months and accelerated up to RMB2,719,000 in the last rental period. In the opinion of the directors of the Company, the lease agreement with the hotel operator is classified as operating lease. As at 31 December 2018, the construction works have been completed pending the final inspection by government authorities. At the date of transfer, 30 June 2018, carrying amount of RMB316,703,000 of the building was revalued at RMB520,000,000 by Cushman & Wakefield. As a result, the Group recognised RMB203,297,000 of fair value gain in the profit or loss for the year ended 31 December 2018.

Additional development costs of RMB48,508,000 was incurred from the investment properties under construction for the year ended 31 December 2018.

- (e) In December 2017, 800 units of car park in Zhoutouzui Project was built up and contracted to a management service provider for the operation of car park under a tenancy agreement for a term of 5 years commencing 1 December 2017 at a fixed monthly rental. At the date of transfer, 31 December 2017, carrying amount of RMB125,649,000 of the car parks was revalued at RMB479,000,000 by Cushman & Wakefield. As a result, the Group recognised RMB353,351,000 for fair value gain in the profit or loss for the year ended 31 December 2017.

### 18. GOODWILL

	2018 RMB'000	2017 RMB'000
<b>Cost</b>		
At beginning of year	68,664	68,664
At end of year	68,664	68,664
<b>Accumulated impairment loss</b>		
At beginning of year	55,110	55,110
Impairment loss recognised during the year	13,554	-
At end of year	68,664	55,110
<b>Net book value</b>		
At end of year	-	13,554

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 18. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	2018	2017
		RMB'000	RMB'000
Zhoutouzui Project	Property development (Note)	–	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition in 2007. The carrying amount of property development costs in relation to the properties being under construction in Zhoutouzui Project is included in properties held for sale (as disclosed in note 23).

#### Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

The remaining GFA unsold on the apartments is approximately 17,000 sq.m. in Zhoutouzui Project. In light of the current stage of the project, the Directors perceive the cashflow generated from the project in the coming years will not be as significant as that in the previous years. The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates insufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management consider impairment loss of goodwill of RMB13,554,000 is provided for the year ended 31 December 2018 (2017: nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENT

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Unlisted debt investment at fair value through profit or loss	<u>10,000</u>	–
Available-for-sale investment	–	<u>10,000</u>

This is an investment into a fund incorporated in the PRC managed by 深圳前海易通基金管理有限公司 (Shenzhen Qianhai Yitong Fund Management Company Limited\*) (“**Qianhai Yitong**”), which is wholly-owned by the Company’s controlling shareholder, Mr. Yu Pun. As at 31 December 2018 and 2017, the cost of the investment was RMB10,000,000, and the Group determined the fair value of the investment on the basis of the report provided by the Qianhai Yitong. Qianhai Yitong executes unified operation and investment management, while the Group shares investment risks as well as potential income in proportion to their contributions. The directors of the Company considered that the fair value of the debt investment approximated the carrying value as at 31 December 2018 and 2017.

\* *English name is for identification purpose only*



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 20. INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	15,899	–

For the year ended 31 December 2018, the Group has a 40% (2017: nil) interest in a material joint venture, 廣西眾擎易舉投資有限公司 (Guangxi Zhongqing Yiju Investment Limited\*) (“**Guangxi Zhongqing**”), a newly established company in the PRC. The primary activity of the joint venture is property development, which is in line with the Group’s strategy to expand its business in the Nanning region.

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting with Guangxi Zhongqing. Under HKFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, is presented below:

As at 31 December 2018	RMB'000
Current assets	2,423,260
Non-current assets	153
Current liabilities	1,203,638
Non-current liabilities	1,180,028
Net assets	39,747

*Included in the above amounts are:*

Cash and cash equivalents	110,074
Current financial liabilities (excluding trade and other payable)	36,916
Non-current financial liabilities (excluding other payable and provision)	1,180,028

For the year ended 31 December 2018	RMB'000
Revenues	–
Profit/(loss)	(20,253)
Total comprehensive income	(20,253)

*Included in the above amounts are:*

Depreciation and amortisation	14
Interest income	414
Interest expense	–
Income tax expense/(income)	–

The Group’s share of Guangxi Zhongqing’s capital commitments in relation to property construction and development costs are RMB24,936,000 as at 31 December 2018. Guangxi Zhongqing had no contingent liabilities as at 31 December 2018.

\* English name is for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 21. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited\*) (“**GZ Yucheng**”), a sino-foreign cooperative company with limited liabilities established in the PRC by Guangzhou Zhoutouzui Development Limited (“**GZ Zhoutouzui**”), a wholly-owned indirect subsidiary of the Company, and is accounted for as a joint operation in the Group’s financial statements since 2006. The Group’s accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Attributable equity interest indirectly held by the Company		Principal activity
			2018	2017	
PRC, 31 March 2003	US\$100,000,000	US\$100,000,000 (approximately RMB656,641,000)	100%	100%	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited\*) (“**Port Authority**”), contributed a land for property development with developable GFA of approximately 320,000sq.m., is entitled to 28% of the total gross floor area of the project upon completion of the development (agreed to be the entire block of Tower A4 and certain residential units in Tower A5 as specified under the contractual terms) and after then, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to the remaining 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the identified 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

In December 2017, Port Authority acknowledged the transfer of the rights of use of the property units in Tower A4 and discussions are currently being held in the delegating GZ Yucheng to sell the residential units in Tower A5.

\* English name for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 22. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Land use rights ( <i>Note</i> )	3,869,075	1,734,123
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	281,893	170,403
Construction costs	2,019,421	1,770,152
Others	1,383,938	392,923
	<u>7,554,327</u>	<u>4,067,601</u>
<i>Less: Accumulated write-down in value</i>	–	(27,151)
	<u>7,554,327</u>	<u>4,040,450</u>
Representing:		
Properties held for development	–	488,072
Properties under development	7,554,327	3,552,378
	<u>7,554,327</u>	<u>4,040,450</u>

*Note:*

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 22. PROPERTIES HELD FOR/UNDER DEVELOPMENT (continued)

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2018 RMB'000	2017 RMB'000
At beginning of year	4,040,450	8,132,187
Additions		
– Capitalisation of depreciation of property, plant and equipment	78	127
– Capitalisation of finance costs	505,135	295,539
– Land and other development costs	2,852,410	2,500,590
– Acquisition of a subsidiary	2,624,800	–
	5,982,423	2,796,256
Completed properties transferred to properties held for sale	(2,103,335)	(6,860,842)
Completed properties transferred to investment properties	(316,703)	–
Properties under development transferred to investment properties	(48,508)	–
Write down of properties under development	–	(27,151)
At end of year	7,554,327	4,040,450

### 23. PROPERTIES HELD FOR SALE

	2018 RMB'000	2017 RMB'000
Completed properties held for sale	4,144,040	3,984,040
Less: Transfer to investments properties	–	(125,649)
Less: Write-down of properties held for sale (Note)	–	(104,148)
	4,144,040	3,754,243

All completed properties held for sale as at 31 December 2018 were located in the PRC.

Note:

Write down of the carrying values of RMB104,148,000 for the year ended 31 December 2017 in respect of properties held for sale in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for properties purchased by government for the resettlement of original occupants of the project site and residents in shanty dwellings around the region.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. ANALYSIS OF PROPERTIES

- (a) The analysis of the net book values of properties held for sale, leasehold land and building for self-use and fair value of investment properties is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Land lease in the PRC and Hong Kong		
– Investment properties	2,907,157	1,094,400
– Leasehold land and building	267,093	226,028
– Properties held for sale	4,144,040	3,754,243
	<b>7,318,290</b>	<b>5,074,671</b>

- (b) The Group's investment properties were revalued at transfer dates, 31 December 2018 and 31 December 2017. The valuations were carried out by Cushman & Wakefield International Property Advisers (Guangzhou) Co., Ltd. for properties in the PRC and CBRE Limited (2017: RHL Appraisal Limited) for properties in Hong Kong, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the locations and category of the properties being valued. The Group's management has discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date.
- (c) The Group's investment properties with fair value and leasehold land and building, property held for sale and property under development with carrying amounts as disclosed in note 45 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.
- (d) For the year ended 31 December 2018, the rental income from investment properties amounted to RMB27,975,000 (2017: RMB17,609,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. ANALYSIS OF PROPERTIES (continued)

#### (e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Location	Fair value as at 31 December		Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
		RMB'000	Fair value hierarchy			
<b>2018</b>						
Investment properties in Hong Kong	i) Unit 02, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	46,593	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
	ii) Unit 03, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	49,681				
	iii) Unit 04, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	35,193				
Investment properties in the PRC	i) Retail units on 2/F and 5/F, and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	469,000	Level 3	Income capitalization approach  The key inputs are:  (1) Capitalisation rate;  (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB427/sq.m./month for the base level.	The higher the capitalisation rate, the lower the fair value.  The higher the daily unit rent, the higher the fair value.
	ii) 800 Units of carparks at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	520,000			(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 1.50%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB1,800/lot/month for the base level.	

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. ANALYSIS OF PROPERTIES (continued)

#### (e) Fair value (continued)

Nature	Location	Fair value as at 31 December		Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
		RMB'000	Fair value hierarchy			
	iii) Tower A at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	520,000				(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 2.50%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB193/sq.m./month for the base level.
	iv) D3-2/03, Zone D of Danzishi Group, Nanan District, Chongqing, the PRC	1,215,000				(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.00%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB57/sq.m./month for the base level.
	v) Unit 1 to 5, 10/F, Huan Cheng Plaza, Tianhe North road, Tianhe District, Guangzhou, Guangdong, the PRC.	31,895				(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 5.00%.
	vi) Unit 1 to 3, 14/F, Huan Cheng Plaza, Tianhe North road, Tianhe District, Guangzhou, Guangdong, the PRC.	19,795				(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB183/sq.m./month for the base level.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. ANALYSIS OF PROPERTIES (continued)

#### (e) Fair value (continued)

Nature	Location	Fair value as at 31 December		Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
		RMB'000	Fair value hierarchy			
<b>2017</b>						
Investment properties in Hong Kong	i) Unit 02, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	36,855	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
	ii) Unit 03, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	39,298				
	iii) Unit 04, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	27,838				
	iv) Unit 05, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	42,409				
Investment properties in the PRC	i) Retail units on 2/F and 5/F, and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Ovince, the PRC	469,000	Level 3	Income capitalization approach  The key inputs are:  (1) Capitalisation rate;	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
	ii) 800 Units of carparks at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	479,000		(2) Daily unit rent	(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB417/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. ANALYSIS OF PROPERTIES

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2018 and 31 December 2017 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

*Fair value measurements and valuation processes*

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance (level 3 recurring fair value)	948,000	456,000
Additions	51,690	–
Acquired through business combinations ( <i>Note 40(c)</i> )	1,163,000	–
Transfer from properties under development	365,211	–
Transfer from properties held for sale	–	125,649
Gains: included in other gains	247,789	366,351
Closing balance (level 3 recurring fair value)	<u>2,775,690</u>	<u>948,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 25. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Loan to a non-controlling shareholder of a subsidiary	<b>51,847</b>	52,900

As at 31 December 2018 and 2017, the balance is unsecured, interest-bearing at floating rate referenced to 110% of the 1-year lending rate as quoted by the People's Bank of China and payable in January, June, July, September and November 2019 respectively. In the opinion of the directors of the Company, ECL on the balance was provided.

The movements of impairment loss of loan to a non-controlling shareholder of a subsidiary of the Group are as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
At beginning of year	–	–
Impact of initial application of HKFRS 9 (note 2(a)(ii)(II))	<b>529</b>	–
Provision of impairment loss during the year	<b>524</b>	–
	<b>1,053</b>	–

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 26. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	<b>2018</b>	2017
		<b>RMB'000</b>	<b>RMB'000</b>
Current or less than 1 month		803	1,370
1 to 3 months		171,788	380
More than 3 months but less than 12 months		21,248	542
More than 1 year		2,601	539
Trade receivables from tenants and property occupants, net of impairment	<i>(a,b)</i>	196,440	2,831
Receivable from district government for resettlement housing in a project	<i>(c)</i>	52,272	52,272
Sale proceeds kept by a monitoring governmental authority	<i>(d)</i>	391,453	195,910
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary	<i>(e)</i>	24,900	38,689
Refundable construction costs		2,278	60,697
Tender deposit in development project	<i>(f)</i>	40,800	20,800
Prepaid construction costs		187,975	204,571
Prepaid finance costs		1,494	7,638
Prepaid business taxes and surcharges		443,641	315,918
Maintenance funds paid on behalf of properties owners	<i>(g)</i>	55,459	46,616
Other deposits, prepayments and other receivables	<i>(h)</i>	214,792	254,850
		<b>1,611,504</b>	<b>1,200,792</b>

*Notes:*

- (a) Trade receivable for property sales are due on the dates of delivery of properties but settlements are made by agreements on instalment payments or time allowed for collections. Management fees receivable bear no credit term. To tenants for rent receivables, the Group maintains a policy of credit period of 8 to 30 days. The Group's formal credit policy monitors the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Evaluations are performed on all customers to whom credits are offered. The Group and the Company recognised impairment loss based on the accounting policy stated in Note 4(k)A(ii) (2017: Note 4(k)B(ii)).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (i) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months past due	171,788	380
More than 3 months but less than 12 months past due	21,248	542
More than 1 year past due	2,601	539
	<u>195,637</u>	<u>1,461</u>

The trade receivables as at 31 December 2018 comprise mainly property sales which are recognized as sales when properties have been handed over to customers, regardless of whether the corresponding sale proceeds have been fully collected.

The Group's trade receivables which are past due but not impaired relate to mainly property sales proceeds in the process of bank mortgage approval, settlements by installments, and rent due by a few tenants. Management perceives no any debt of material amounts bear a default risk.

(ii) The summaries of trade receivables (net of impairment) are as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of properties	185,838	–
Rental income	2,234	1,146
Property management services	8,368	1,685
	<u>196,440</u>	<u>2,831</u>

(c) The balance is unsecured relates to an outstanding balance of property sales contracted with a district government in Nanning for resettlement houses for occupants of the land lots on which the Nanning Skyfame Garden Project is developed since 2016. These resettlement houses have been built up pending handing over to the government authority during 2019 when the outstanding debt will be settled. No credit loss is expected by the management.

(d) The balance represents pre-sales proceeds of Xuzhou Times City Project held by a governmental authority in Xuzhou. This governmental authority is responsible for the monitoring of the usage of funds which were deposited in a regulated bank account in the name of the government authority when the sales and purchase agreements have been entered into between the Group and the customers and sale proceeds received. The Group has a right to use the pre-sale proceeds kept in the bank account to pay construction costs of the related development project and the pre-sales proceeds will be put for free use by the Group upon completion of the relevant project. The management expects the ECL on this other receivable is insignificant.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (e) Unpaid-up capital is to be made by a minority shareholder of Xuzhou Elegance Garden Project who is entitled to the sharing of 22% profit distributed by the project. Management expects the unpaid-up amount will be made good by profits distributed to shareholders and therefore perceives no credit loss.
- (f) Deposits were tendered to governments in respect of two projects respectively for a shanty town remodeling project and a land to be expropriated in Nanning. Management expects the deposits can be used as part of the land costs or refunded if the expropriation of land does not materialise. Hence, no credit loss on the deposits is foreseen.
- (g) Maintenance funds were paid for maintenance of properties under development which will be refunded by property buyers upon handing over of properties. No credit loss on the funds paid is expected.
- (h) RMB92,424,000 of other miscellaneous deposits and receivables are trade in nature. No credit loss of material amount is expected.

The movements of impairment loss on trade and other receivables of the Group are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	1,570	1,570
Impact of initial application of HKFRS 9 (note 2(a)(ii)(I))	90	–
Impact of initial application of HKFRS 9 (note 2(a)(ii)(III))	3,026	–
Provision of impairment of trade receivables during the year	4,824	–
Provision of impairment of other receivables during the year	897	–
	10,407	1,570

The balances of trade and other receivables as disclosed under category (b) and (h) in the note are neither past due nor impaired. Management considers that the credit risk associated with these receivables is minimal but a general provision for impairment loss is provided for as in the aforesaid.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 27. PREPAYMENTS/DEPOSITS FOR PROPOSED PROJECTS FOR SALE

The Group has entered into a number of contractual arrangements relating to remodelling certain old districts and other development projects. The balances are progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions. These prepayments/deposits would be converted into properties under development upon the completion of the contracts.

	<i>Notes</i>	<b>2018</b> <i>RMB'000</i>	2017 <i>RMB'000</i>
Prepayment for proposed project	(a)	<b>191,020</b>	614,209
Deposit paid for land held for development	(b)	<b>112,663</b>	106,193
Deposit paid for proposed projects	(c)	<b>691,245</b>	664,867
		<b>994,928</b>	1,385,269

*Notes:*

- (a) As at 31 December 2018, prepayment costs were made for start-off costs on an old district remodeling project in Guangzhou. The management is currently conducting works as customarily required in the preliminary stage of a typical old district remodeling project. In view of the steady progress since project start-off, the management anticipates that the demolition contract will be entered into by the project company in near future and the district government will put the land for auction with pre-requisite conditions made exclusively to the benefit of the project company.
- (b) Deposit was made for a project in Guangzhou with land use right certificate for a development of industrial properties. The management is negotiating with the district government for conversion of the land use right to the development of commercial properties. Negotiations are ongoing and management does not perceive credit loss on the investment costs paid.
- (c) Deposits were paid for several proposed projects in Shenzhen, Guangzhou, Xuzhou and Guilin. The grant of land use or redevelopment rights had not yet taken place as of 31 December 2018. However, given the progress of the work and negotiations with the contracting parties, managements does not perceive credit loss on the deposits paid.

### 28. SHORT-TERM INVESTMENTS

The Group invested in an insurance policy issued by a licensed insurance company on mainland China with investment value amounting to RMB100,000,000 carried interest ranged from 2.6% to 3.6% per annum for the period from 6 September 2017 to 26 April 2018 which was used to secure a back-to-back letter of credit issued by a local bank in PRC to its overseas sub-branch. No such investments were made by the Company as at 31 December 2018.

During the year ended 31 December 2018, RMB3,873,000 in respect of the interest income generated from the short-term investments was recognised in profit or loss (2017: RMB8,884,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 29. RESTRICTED AND PLEDGED DEPOSITS

	<i>Notes</i>	<b>2018</b> <i>RMB'000</i>	2017 <i>RMB'000</i>
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	(a)	45,410	456,511
– the payment of construction cost of development projects	(b)	630,987	856,520
– others		233	233
		<b>676,630</b>	1,313,264

Notes:

- (a) As at 31 December 2018, to secure a subsidiary's repayment of a commercial bank's money market loan of HK\$50,000,000 (approximately RMB43,810,000) (2017: HK\$500,000,000, approximately RMB418,049,000), a bank deposit of RMB45,410,000 (2017: RMB456,511,000) was placed in the local bank in the PRC.
- (b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

### 30. CASH AND CASH EQUIVALENTS

	<b>2018</b> <i>RMB'000</i>	2017 <i>RMB'000</i>
Short-term bank deposits	45,410	569,111
Cash at bank and in hand	3,041,283	3,727,952
	<b>3,086,693</b>	4,297,063
Less: Restricted and pledged deposits ( <i>Note 29</i> )	<b>(676,630)</b>	(1,313,264)
	<b>2,410,063</b>	2,983,799

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 31. TRADE AND OTHER PAYABLES

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current or less than 1 month	–	–
1 to 3 months	2,242	628
More than 3 months but less than 12 months	3,146	736
More than 12 months	4	4
Total trade payables	5,392	1,368
Construction costs payable	1,708,808	1,081,148
Tender payable to the suppliers	61,533	36,387
Receipt in advance, rental and other deposits from residents and tenants	15,601	27,140
Accrued business taxes and surcharges	77,572	47,696
Other accrued expenses and other payables	189,382	180,607
	<b>2,058,288</b>	<b>1,374,346</b>

### 32. FINANCIAL GUARANTEE CONTRACT

- (a) During the year ended 31 December 2018 and 31 December 2017, the Company provided corporate guarantees to secure for the repayment of subsidiaries' borrowings to the extent of RMB32,270,000. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2018 and 2017.
- (b) As at 31 December 2018, the Group provides guarantees to the extent of approximately RMB7,617,557,000 (2017: RMB4,888,199,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage loan payments by these buyers, the Group is responsible for repaying the outstanding mortgage loan principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers, which is normally over two years after the delivery of properties. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceeds recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Bank and other borrowings</b>			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	<i>(a)</i>	1,583,778	1,710,526
(ii) money market loans	<i>(b)</i>	43,810	506,842
Other secured borrowings:			
(i) trust loans	<i>(c)(i)(ii)(iii)</i>	242,316	616,008
(ii) secured loans	<i>(d)(i)(ii)</i>	2,799,778	423,164
Unsecured borrowings:			
(i) unsecured bonds	<i>(e)(i)(ii)(iii)</i>	1,646,900	1,018,754
(ii) other borrowings	<i>(f)</i>	35,116	–
		<b>6,351,698</b>	<b>4,275,294</b>
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		2,817,188	1,171,198
More than one year, but not exceeding two years		1,793,166	1,686,658
More than two years, but not exceeding five years		405,819	408,057
After five years		1,335,525	1,009,381
		<b>6,351,698</b>	<b>4,275,294</b>
Amounts due within one year included in current liabilities		<b>(2,817,188)</b>	<b>(1,171,198)</b>
Amounts due after one year		<b>3,534,510</b>	<b>3,104,096</b>
<b>Derivative financial asset</b>			
– Company Redemption Rights on Unsecured Bonds	<i>(e)(i)(ii)</i>	<b>(60,388)</b>	<b>(46,144)</b>
<b>Derivative financial liabilities</b>			
– Holder Redemption Rights on Unsecured Bonds	<i>(e)(i)(ii)</i>	<b>10,895</b>	<b>12,333</b>
Amounts due within one year included in current liabilities		<b>(2,138)</b>	<b>–</b>
Amounts due after one year		<b>8,757</b>	<b>12,333</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes:

- (a) At 31 December 2018, bank borrowings are secured by mortgages of ownership titles of properties held for self-use, properties under development and investment properties with an aggregate carrying amount of approximately RMB3,894,749,000 (2017: RMB3,387,207,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 8.0% per annum (2017: 2.50% to 8.50% per annum) as at 31 December 2018. In addition to mortgages, the Company also provides corporate guarantees to secure the repayment of a term loan and revolving loans with carrying values totaling approximately RMB157,173,000 (2017: RMB153,018,000) and a construction loan with carrying amount of approximately RMB1,426,605,000 (2017: RMB1,278,808,000) are secured by the personal guarantee provided by Mr. YU Pan, the controlling shareholder of the Company, and/or his spouse.

Other than term loans of approximately RMB407,245,000 (2017: RMB61,180,000) which are repayable by monthly instalments until 2033, other bank borrowings in an aggregate amount of approximately RMB1,176,533,000 (2017: RMB1,649,347,000) are repayable in the years between 2019, 2020 and 2021.

As at 31 December 2018, the aggregate carrying values of the aforesaid bank borrowings are RMB1,583,778,000 (2017: RMB1,710,526,000).

- (b) As at 31 December 2018, a money market loan of approximately RMB43,810,000 (2017: RMB506,842,000) was extended by an onshore bank secured by a bank deposit of RMB45,410,000 and bore interests at a rate of 3.30% per annum (2017: fixed rate at 1.95% and 2.33% per annum). The maturity date of the money market loan is 24 April 2019.
- (c) (i) As at December 2018, a trust loan of principal amount RMB241,400,000 (the "Trust Loan A") was provided by a trust company, namely 四川信託有限公司 (Sichuan Trust Company Limited\*), to a subsidiary of the Company, namely 徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited\*) ("Xuzhou Jianyu") engaged in the property development of Xuzhou Skyfame Elegance Garden Project, which is secured by the land use rights and the equity interest in Xuzhou Jianyu. Trust Loan A carries interest at 12.5% per annum and has a term of two years, extendable for one year.
- (ii) A trust loan of principal amount RMB114,000,000 (the "Trust Loan B") was provided by 四川信託有限公司 (Sichuan Trust Company Limited\*) to 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited\*) ("Xuzhou Yucheng"), a subsidiary of the Company engaged in the property development of Xuzhou Times City Project, which is secured by the equity interest in Xuzhou Yucheng and some residential units developed in Nanning Skyfame Garden Project. Trust Loan B carries interest at rate of 11.0% per annum. The trust loan was fully repaid in June 2018.
- (iii) Some residential units developed in Zhoutouzui project were mortgaged in favour of a trust company, 華信信託有限公司 (Huaxin Trust Company Limited\*), for a loan of RMB500,000,000 provided to a subsidiary Guangzhou Zhoutouzui Development Limited ("GZ Zhoutouzui") (the "Trust Loan C"). Trust Loan C carries a fixed rate interest at 7% per annum and was fully repaid in November 2018.

\* English name is for identification purpose only.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

- (d) (i) A secured loan was extended by China Huarong International Holdings Limited in the principal amount of HK\$500,000,000 (RMB438,100,000) (the "Secured Loan A") and was drawn down on 25 July 2017. The contractual interest of Secured Loan A was 10% per annum. The Secured Loan A was amortised at an effective interest rate of 11.39% per annum. Secured Loan A has a term of two years and was early repaid on 18 February 2019.

Secured Loan A was secured by legal charges over the entire equity interest in GZ Zhoutouzui, the project company of GZ Zhoutouzui project, 965,580,000 shares of the Company (having adjusted for the sub-division of shares) beneficially held by Mr Yu Pan and personal guarantees of Mr. Yu Pan and his spouse. All securities were discharged upon full repayment of the loan.

- (ii) Pursuant to a loan assignment agreement dated 16 July 2018, 中國信達資產管理股份有限公司重慶市分公司 (China Cinda Asset Management Holdings Company Limited, Chongqing Branch\*) ("China Cinda") took up a debt in the principal amount of RMB2.3 billion (the "Secured Loan B") originally owed by 重慶核盛房地產開發有限公司 (Chongqing Hesheng Property Development Company Limited\*) ("CQ Hesheng"), the project company of Chongqing Project, to 中核房地產開發有限公司 (Zhonghe Property Development Company Limited\*) ("Zhonghe"), the holding company of CQ Hesheng prior to the Group's acquisition of the equity interest in CQHesheng. The terms of Secured Loan B are 24 months bearing interests charged at an annual rate of 12% and was repayable in five instalments, the first installment becoming due in July 2019. 廣州創富置業有限公司 (Guangzhou Chuangfu Realty Company Limited\*) ("GZ Chuangfu"), the holding company of CQ Hesheng also acted as a co-borrower of Secured Loan B.

The debts are secured by mortgage over the lands and construction works-in-progress on the lands held by CQ Hesheng and share charges over the shares of CQ Hesheng and GZ Chuangfu.

- (e) (i) As at 31 December 2018, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK\$290,000,000 (RMB254,098,000) due on 12 September 2024 (the "2024 Bonds"), HK\$80,000,000 (RMB70,096,000) due on 12 September 2025 (the "2025 Bonds"), HK\$100,000,000 (RMB87,620,000) due on 12 September 2026 (the "2026 Bonds"), HK\$10,000,000 (RMB8,762,000) due on 15 May 2027 (the "2027 Bonds"), HK\$570,000,000 (RMB499,434,000) due on 14 November 2031 (the "2031 Bonds"), HK\$960,000,000 (RMB841,152,000) due on 14 November 2032 (the "2032 Bonds"), HK\$1,300,000,000 (RMB1,139,060,000) due on 14 November 2033 (the "2033 Bonds"), and HK\$1,880,000,000 (RMB1,647,256,000) due on 16 June 2034 (the "2034 Bonds"). The 2024 Bonds, 2025 Bonds, 2026 Bonds and 2027 Bonds carry coupon interests at 7.5%, whilst the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds carry coupon interests at 8.0% per annum. Interests are payable in advance upon the issue of the bonds. In addition, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds), 16 June (for the 2027 Bonds and the 2034 Bonds), 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) until maturity. The bonds were amortised at effective interest rates ranging from 10.92% to 13.14% per annum.

Bondholders have the right to require the Company to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period within one month, depending on the relevant bonds. The Company has the right to redeem the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds on specific dates or periods.

\* English name is for identification purpose only.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

The movements of the bonds are as follows:

	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Nominal value	290,000	80,000	100,000	10,000	570,000	960,000	1,300,000	1,880,000	5,190,000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nominal value	254,098	70,096	87,620	8,762	499,434	841,152	1,139,060	1,647,256	4,547,478
<b>Liability component of carrying amount</b>									
At 31 December 2016 and 1 January 2017	103,551	26,186	8,656	-	94,745	140,732	32,329	-	406,199
Issue of the bonds, net of transaction costs	-	-	59,423	8,718	-	-	981,602	1,190,198	2,239,941
Discounts and interest paid	(246)	(68)	(38,568)	(5,823)	(485)	(817)	(825,851)	(1,005,560)	(1,877,418)
Accrued interest expense	12,819	3,141	2,656	86	11,206	16,780	15,040	3,136	64,864
Exchange differences	(7,200)	(1,818)	(1,827)	(109)	(6,566)	(9,757)	(11,414)	(4,774)	(43,465)
At 31 December 2017 and 1 January 2018	108,924	27,441	30,340	2,872	98,900	146,938	191,706	183,000	790,121
Issue of the bonds, net of transaction costs	-	-	-	-	-	-	-	596,185	596,185
Discounts and interest paid	(255)	(70)	(88)	-	(506)	(852)	(1,154)	(494,876)	(497,801)
Accrued interest expense	14,155	3,456	3,851	356	12,277	18,391	22,909	28,797	104,192
Exchange differences	5,728	1,439	1,593	151	5,188	7,715	10,029	16,985	48,828
At 31 December 2018	128,552	32,266	35,696	3,379	115,859	172,192	223,490	330,091	1,041,525

(ii) In 2016, the Company issued unsecured bonds in an aggregate principal amount of HK\$100,000,000 (RMB87,620,000) to independent third parties, due on 4 July 2019 (the "2019 Bonds"). The 2019 Bonds carry interest at the coupon rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019 but are subject to early redemption right granted to the bondholders. The 2019 Bonds are amortised at the effective interest rate of 11.46% per annum. As at 31 December 2018, the outstanding amount of the bonds was HK\$97,500,000 (RMB85,430,000). During the year, principal sums of HK\$2,500,000 (RMB2,217,000) had been early redeemed by the bondholders.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

(ii) (continued)

In 2017, the Company issued unsecured bonds in an aggregate principal amount of HK\$200,000,000 (approximately RMB175,240,000) ("2019/2020 Bonds") to independent third parties. The 2019/2020 Bonds carry interests at the coupon rate of 5% per annum, payable quarterly in arrears, and will mature in 2019 and 2020 but are subject to early redemption right granted to the bondholders. The 2019/2020 Bonds were amortised at the effective interest rates ranging from 13.69 to 14.07% per annum. As at 31 December 2018, the outstanding amount of the bond was HK\$156,600,000 (approximately RMB137,213,000). During the year, principal sums of HK\$43,400,000 (RMB38,152,000) had been early redeemed from the bondholders.

During the year, the Company has issued the unsecured bonds in an aggregate principal amount of HK\$249,000,000 (RMB218,174,000) ("2021 Bonds"). The 2021 Bonds carry interests at coupon rate of 6% per annum, payable quarterly in arrears, and will mature in 2021. The Bonds were amortised at the effective interest rate of 11.58% per annum. As at 31 December 2018, the outstanding amount of the bond was HK\$249,000,000 (approximately RMB218,174,000).

The movements of the bonds are as follows:

	2019 Bonds	2019/2020 Bonds	2021 Bonds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Nominal value	97,500	156,600	249,000	503,100
	RMB'000	RMB'000	RMB'000	RMB'000
Nominal value	85,430	137,213	218,174	440,817
<b>Liability component of carrying amount</b>				
At 31 December 2016 and 1 January 2017	83,540	35,121	–	118,661
Reclassified	6,970	3,399	–	10,369
Issue of the bonds, net of transaction costs	–	106,144	–	106,144
Discounts and interest paid	(8,749)	(2,361)	–	(11,110)
Accrued interest expense	8,458	8,311	–	16,769
Exchange differences	(5,815)	(6,385)	–	(12,200)
At 31 December 2017 and 1 January 2018	84,404	144,229	–	228,633
Issue of the bonds, net of transaction costs	–	–	178,237	178,237
Repayment	(2,217)	(38,152)	–	(40,369)
Discounts and interest paid	(8,448)	(8,482)	(5,319)	(22,249)
Accrued interest expense	9,188	16,958	11,899	38,045
Exchange differences	4,061	7,337	9,494	20,892
At 31 December 2018	86,988	121,890	194,311	403,189

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

- (iii) In August 2018, the Company had issued secured bonds in the aggregate principal amount of US\$30,000,000 (approximately RMB205,896,000) (the "363-day Bonds") to two financial institutions. The 363-day Bonds bear interests charged at the rate of 10% per annum and mature on 28 August 2019. Interest on the 363-day Bonds are payable in arrears on 28 February 2019 and 28 August 2019. On 13 February 2019, bonds of US\$12,800,000 were early redeemed by negotiation.

The movements of the bonds are as follows:

	<i>RMB'000</i>
Issue of the Secured Bonds, net of transaction costs	187,569
Accrued interest expense	12,169
Exchange differences	2,448
	<hr/>
At 31 December 2018	202,186

- (f) In August 2018, an unsecured loan of HK\$40,000,000 (RMB35,048,000) was advanced by an individual investor. The loan carries interest at a fixed rate of 10% per annum. The loan is payable in August 2021.

### 34. AMOUNT DUE TO A JOINT VENTURE

The amount due to a joint venture is unsecured, interest-free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 35. DEFERRED TAX ASSET/LIABILITIES

Movements of the deferred tax asset/liabilities are as follows:

	Land appreciation tax RMB'000	Tax losses RMB'000	Withholding tax RMB'000	Revaluation of properties			Properties held for sales RMB'000	Total RMB'000
				Leasehold land and building RMB'000	Investment properties RMB'000	Properties under development RMB'000		
At 1 January 2017	(20,727)	(36,626)	-	6,037	87,877	76,608	-	113,169
(Credit)/charged to profit or loss	2,585	36,626	39,975	(259)	91,588	(48,438)	-	122,077
At 31 December 2017 and at 1 January 2018	(18,142)	-	39,975	5,778	179,465	28,170	-	235,246
Acquisition of subsidiaries	(2,247)	-	-	9,917	55,399	70,933	203,604	337,606
(Credit)/charged to profit or loss	(5,260)	-	(16,475)	(260)	60,366	(18,747)	(23,269)	(3,645)
At 31 December 2018	(25,649)	-	23,500	15,435	295,230	80,356	180,335	569,207

As at 31 December 2018, the Group have estimated unutilised tax losses of approximately RMB121,871,000 (2017: RMB122,577,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB57,815,000 (2017: RMB77,048,000) which may be carried forward indefinitely, and the remaining balance of RMB64,057,000 (2017: RMB45,529,000) will expire in five years.

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. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group. Accordingly, withholding income tax has been provided at 5% (2017: 10%) of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 36. SHARE CAPITAL

#### (a) Authorised and issued share capital

	Notes	Number of shares Ordinary share capital '000	Nominal value Ordinary share capital HK\$'000	Equivalent nominal value of ordinary share capital RMB'000
<b>Authorised:</b>				
At 31 December 2017 and 1 January 2018		30,000,000	300,000	311,316
Effect of Share Subdivision	(i)	60,000,000	-	-
At 31 December 2018		90,000,000	300,000	311,316
<b>Issued and fully paid:</b>				
At 1 January 2017		2,616,531	26,165	24,456
Shares issued under share option scheme	(ii)	1,566	16	13
At 31 December 2017 and 1 January 2018		2,618,097	26,181	24,469
Shares issued under share option scheme	(ii)	30,310	303	190
Effect of Share Subdivision	(i)	5,274,268	-	-
At 31 December 2018		7,922,675	26,484	24,659

**Notes:**

- (i) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 19 October 2018, every one issued and unissued existing ordinary share of HK\$0.01 each in the share capital of the Company was subdivided into three subdivided shares of one third Hong Kong cent each (the "Share Subdivision"). The Share Subdivision was completed on 22 October 2018.
- (ii) During the year ended 31 December 2018, 6,060,810 options and 9,904,576 options with exercise price of HK\$0.6714 and HK\$0.2238, adjusted exercise price upon completion of share subdivision, respectively under the 2005 scheme (2017: nil), and 12,976,000 options and 1,368,400 options have been exercised respectively at exercise price of HK\$1.082 and HK\$0.3607 which was adjusted exercise price upon completion of share subdivision, under the 2015 scheme (2017: 1,556,000 options with exercise price of HK\$1.082) to subscribe for aggregate 30,309,786 (2017: 1,556,000) ordinary shares in the Company at a consideration of HK\$20,819,486, equivalent to approximately RMB17,616,000, (2017: approximately RMB1,448,000) of which RMB190,000 (2017: RMB13,000) was credited to share capital and the balance of RMB17,426,000 (2017: RMB1,435,000) was credited to share premium. RMB9,498,000 (2017: RMB727,000) transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 4 (q).



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 36. SHARE CAPITAL (continued)

#### (b) Capital management policy

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Group monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings and derivative financial liabilities less restricted cash and pledged deposits, cash and cash equivalents and short-term investment used as security for borrowings. Capital represents equity attributable to owners of the Group.

The gearing and net debt to equity ratios as at the end of the reporting period are calculated based on the following:

		2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Total debt		6,362,593	4,287,627
Less: restricted cash and pledged deposits		(676,630)	(1,313,264)
Less: cash and cash equivalents		(2,410,063)	(2,983,799)
Less: short-term investment		-	(100,000)
Net debt	(A)	3,275,900	(109,436)
Equity attributable to owners	(C)	2,913,425	2,326,029
Capital plus net debt	(B)	6,189,325	2,216,593
Gearing ratio	(A/B)	52.9%	-4.9%
Net debt to equity	(A/C)	112.4%	-4.7%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 37. RESERVES

	Share premium	Contributed surplus reserve	Share-based payment reserve	Shares held for share award scheme reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/capital reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	1,662,587	16,116	19,178	-	(293,095)	6,471	(1,441)	743	330,094	1,740,653
Issue of shares: upon exercise of share options	2,162	-	(727)	-	-	-	-	-	-	1,435
Recognition of equity-settled share-based payment expenses	-	-	6,185	-	-	-	-	-	-	6,185
Exchange differences arising on foreign operations	-	-	-	-	-	-	2,827	-	-	2,827
Profit for the year	-	-	-	-	-	-	-	-	550,460	550,460
As at 31 December 2017 and at 1 January 2018	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	880,554	2,301,560
Effect on adoption of HKFRS 9	-	-	-	-	-	-	-	-	(3,645)	(3,645)
Effect on adoption of HKFRS 15	-	-	-	-	-	-	-	-	21,222	21,222
As at 1 January 2018 (restated)	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	898,131	2,319,137
Issue of shares: upon exercise of share options	26,924	-	(9,498)	-	-	-	-	-	-	17,426
Recognition of equity-settled share-based payment expenses	-	-	5,709	-	-	-	-	-	-	5,709
Exchange differences arising on foreign operations	-	-	-	-	-	-	(4,043)	-	-	(4,043)
Purchase of shares for share award scheme	-	-	-	(114,691)	-	-	-	-	-	(114,691)
Dividend and distribution	-	-	-	-	-	-	-	-	(86,087)	(86,087)
Profit for the year	-	-	-	-	-	-	-	-	751,315	751,315
At 31 December 2018	1,691,673	16,116	20,847	(114,691)	(293,095)	6,471	(2,657)	743	1,563,359	2,888,766

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 37. RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(q).
Shares held for share award scheme reserve	The shares held for share award scheme is the consideration paid, including any directly attributable incremental costs for purchase of shares under the Share Award Scheme, in accordance with the accounting policy set out in Note 4(r).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(o).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

#### (a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "2005 Scheme").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the offer date (the "Individual Limited"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (a) 2005 Scheme (continued)

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the “**Board**”) in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

#### (b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the “**2015 Scheme**”).

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the “**Invested Entity**”). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as “refreshed” shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (b) 2015 Scheme (continued)

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (b) 2015 Scheme (continued)

Details of the movement of the share options are as follows:

Date of grant	Exercise period	Exercise price per share before the completion of share sub-division	Adjusted exercise price per share after completion of share sub-division	Number of options outstanding at 1 January 2017	During the year ended 31 December 2017		During the year ended 31 December 2018			Number of options outstanding at 31 December 2018
					Options exercised	Number of options outstanding at 31 December 2017 and 1 January 2018	Options exercised	Adjusted options upon completion of share sub-division	Options exercised after completion of share sub-division	
11 August 2011	11 August 2012 to 10 August 2021	HK\$0.6714	HK\$0.2238	5,942,929	-	5,942,929	(3,219,826)	5,446,206	(4,103,094)	4,066,215
11 August 2011	11 August 2015 to 10 August 2021	HK\$0.6714	HK\$0.2238	5,942,930	-	5,942,930	(2,840,984)	6,203,892	(923,432)	8,382,406
11 August 2011	11 August 2018 to 10 August 2021	HK\$0.6714	HK\$0.2238	5,942,932	-	5,942,932	-	11,885,864	(4,878,050)	12,950,746
				17,828,791	-	17,828,791	(6,060,810)	23,535,962	(9,904,576)	25,399,367
26 June 2015	26 June 2016 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	(786,500)	8,622,900	(4,884,300)	7,477,200	-	11,215,800
26 June 2015	26 June 2017 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	(779,500)	8,629,900	(4,137,700)	8,984,400	(1,003,000)	12,473,600
26 June 2015	26 June 2018 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	-	9,409,400	(3,954,000)	10,910,800	(365,400)	16,000,800
26 June 2015	26 June 2019 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	-	9,409,400	-	18,818,800	-	28,228,200
26 June 2015	26 June 2020 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	-	9,409,400	-	18,818,800	-	28,228,200
26 June 2015	26 June 2021 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,409,400	-	9,409,400	-	18,818,800	-	28,228,200
26 June 2015	26 June 2022 to 25 June 2025	HK\$1.0820	HK\$0.3607	9,343,600	-	9,343,600	-	18,687,200	-	28,030,800
				65,800,000	(1,566,000)	64,234,000	(12,976,000)	102,516,000	(1,368,400)	152,405,600
				83,628,791	(1,566,000)	82,062,791	(19,036,810)	126,051,962	(11,272,976)	177,804,967
Weighted average exercise price				HK\$0.9945	HK\$1.0820	HK\$0.9928	HK\$0.9513	HK\$0.3351	HK\$0.2404	HK\$0.3411
<i>Analysis by category:</i>										
Directors				16,213,097	-	16,213,097	(656,000)	31,114,194	(5,000,000)	41,671,291
Other employees				67,415,694	(1,566,000)	65,849,694	(18,380,810)	94,937,768	(6,272,976)	136,133,676
				83,628,791	(1,566,000)	82,062,791	(19,036,810)	126,051,962	(11,272,976)	177,804,967

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 11 August 2011 and 26 June 2015 were HK\$0.42 and HK\$0.58 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme and the 2015 Scheme:

	<b>2005 Scheme</b>
Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK\$0.67
Exercise price per share (initial)	HK\$0.70
Exercise price per share (adjusted for share sub-division)	HK\$0.2238
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	NIL
	<b>2015 Scheme</b>
Option pricing model	Binomial Model
Date of grant	26 June 2015
Closing share price at the date of grant	HK\$1.02
Exercise price per share (initial)	HK\$1.082
Exercise price per share (adjusted for share sub-division)	HK\$0.3607
Annual risk-free rate	1.81%
Expected volatility	56%
Life of the option	10 years
Expected dividend yield	NIL



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	2005 Scheme Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

Option Exercise Period	2015 Scheme Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB5,709,000 (2017: RMB6,185,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2018 in relation to share options granted by the Company.

The exercise prices of options outstanding at the end of the year are HK\$0.2238 to HK\$0.3607, both are adjusted with the effect of the share subdivision. During the year ended 31 December 2018, 30,310,000 share options (2017: 1,566,000) were exercised, the weighted average share price at the date of exercise of option is HK\$0.363 (2017: HK\$1.082). The weighted average fair value of each option granted during the year ended 31 December 2018, was HK\$0.53 (2017: HK\$0.53).

The number of exercisable options as at 31 December 2018 is 69,089,567, after adjusted by completion of share subdivision (2017: 29,138,659) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2018 is 7.1 years (2017: 5.96 years).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 39. SHARE AWARD SCHEME BY THE COMPANY

On 3 July 2018 (the “**Adoption Date**”), the Board adopted a share award scheme (the “**Share Award Scheme**”) to provide employee(s) of the Group) with an opportunity to hold a proprietary interest in the Company and at the same time of (i) recognizing the contributions by employees and give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) attracting suitable personnel for further development of the Group.

The Board may, from time to time, at its absolute discretion select any employee for participation in the Share Award Scheme as a selected employee (the “**Selected Employee**”), save and except that the selection of a Director as a Selected Employee, the terms and conditions of the Award to such Director and the number of Awarded Shares thereunder shall be approved by the Board upon the recommendation of the Remuneration Committee.

For any award of Shares to Selected Employees who are connected persons (within the meaning of the Listing Rules and excluding directors whose service contracts include the share award under the Share Award Scheme as part of their remuneration package), such award must be approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the relevant Selected Employee).

On the Adoption Date, the Company appointed a trustee, Core Pacific – Yamaichi International (H.K.) Nominees Limited (the “**Trustee**”), an independent third party, for the administration of the Share Award Scheme. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion cause to be paid to the Trustee sums of money from the Company’s resources for the purchase of Shares. The Trustee shall hold such shares in trust until they are vested to the beneficiaries in accordance to the rules of the Share Award Scheme.

The Share Award Scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth anniversary date; and (ii) such date of early termination as determined by the directors of the Company.

For the year ended 31 December 2018, the Board approved and transferred approximately HK\$150,000,000 to the Trustee. As at 31 December 2018, 125,540,000 shares were purchased for a total cash consideration of approximately HK\$129,426,000 (equivalent to approximately RMB114,691,000) and held by the Trustee representing approximately 1.58% of the issued share capital of the Company.

All the shares held by the Trustee for the purpose of the Scheme are listed below:

	<b>Number of shares</b>
At 31 December 2018	125,540,000
% of the issued share capital	<u>1.58%</u>

No award shares have been granted to Selected Employee(s) since the commencement of the Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Reconciliation of profit before income tax to net cash from operating activities

	Notes	2018 RMB'000	2017 RMB'000
<b>Profit before income tax</b>		<b>1,644,102</b>	<b>1,038,504</b>
<i>Adjustments for:</i>			
Finance costs	8	53,920	33,088
Finance income	8	(17,669)	(36,483)
Equity-settled share-based payment expenses		5,709	6,185
Depreciation of property, plant and equipment	9	18,871	13,333
Amortisation of leasehold land	16	3,407	3,407
Exchange loss, net		56,996	(130,873)
Fair value changes in financial derivative asset/liabilities		1,476	(13,080)
Loss on early repayment of term loans		–	23,418
Gain on early repayment of unsecured bonds		(1,979)	–
Share of loss in joint venture, net of tax		8,101	–
Impairment loss of trade and other receivables	26	5,721	–
Impairment loss of loan to a non-controlling shareholder of a subsidiary		524	–
Gain from bargaining purchase	40(c)	(81,214)	–
Fair value changes in investment properties	17	(66,405)	(35,701)
Gain on properties valuation	17	(203,297)	(353,351)
Write-down of properties under development/ properties held for sale		–	131,299
Impairment loss on goodwill	18	13,554	–
<b>Operating profit before working capital changes</b>		<b>1,441,817</b>	<b>679,746</b>
(Increase)/decrease in properties under development		(28,252)	4,619,167
Decrease/(increase) in properties held for sale		2,124,064	(3,806,812)
Decrease/(increase) in trade and other receivables		3,779	(1,116,372)
Decrease in trade and other payables		(488,070)	(73,099)
Increase in contract costs		(80,698)	–
Increase in contract liabilities/ properties pre-sale deposits		128,756	531,079
Consideration received from disposal of Tianhe Project and Yongzhou Project		–	277,401
<b>Cash generated from operations</b>		<b>3,101,396</b>	<b>1,111,110</b>
Income tax paid		(698,594)	(138,596)
<b>Net cash from operating activities</b>		<b>2,402,802</b>	<b>972,514</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

#### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	Bank loans and other borrowings (note 33) RMB'000	Derivative financial liabilities (note 33) RMB'000
At 1 January 2017	3,456,063	13,359
Changes from cash flows:		
Additions	5,400,050	30,306
Repayment/settlement	(2,587,677)	(16,197)
Interest paid	(1,935,918)	–
Other borrowing costs paid	(101,558)	–
Total changes from financing cash flows:	774,897	14,109
Exchange adjustments:	(146,075)	(816)
Changes in fair value:	–	(14,319)
Other changes:		
Interest expenses	166,991	–
Issue of the Secured/Unsecured Bonds	23,418	–
Total other changes	190,409	–
At 31 December 2017 and 1 January 2018	4,275,294	12,333
Changes from cash flows:		
Additions	4,872,821	–
Repayment/settlement	(6,797,103)	(1,978)
Interest paid	(515,752)	–
Other borrowing costs paid	(64,623)	–
Total changes from financing cash flows:	(2,504,657)	(1,978)
Exchange adjustments:	70,342	616
Changes in fair value:	–	(76)
Other changes:		
Interest expenses	203,705	–
Acquisition of a subsidiary	4,307,014	–
Total other changes	4,510,719	–
At 31 December 2018	6,351,698	10,895

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

#### (c) Business Combination

On 31 March 2018, the Group acquired from independent third parties 100% equity interest in a company which is engaged in property development in the PRC. The acquisition was agreed at an aggregate consideration of RMB4,907,014,000. This transaction was accounted for on the consolidated financial statements using the acquisition method.

The fair value of net identifiable assets acquired and the gain from bargain purchase arising therefrom are as follows:

	<b>Total amount recognised at the date of acquisition RMB'000</b>
<b>Fair value of net identifiable assets of the subsidiary acquired:</b>	
Property, plant and equipment	14,547
Investment properties	1,163,000
Deferred tax assets	2,246
Properties under development	2,624,800
Properties held for sale	2,513,861
Trade and other receivables	7,144
Cash and cash equivalents	68,631
Trade and other payables	(467,370)
Amount due to a shareholder	(4,307,014)
Contract liabilities	(609,848)
Deferred tax liabilities	(328,783)
<b>Net assets acquired</b>	<b>681,214</b>
<b>Total consideration satisfied by:</b>	
Cash	550,000
Consideration payable	4,357,014
Settlement of shareholder's loan	(4,307,014)
Gain from bargaining purchase	81,214
	<b>681,214</b>
<b>Net cash outflow on acquisition of subsidiary:</b>	
Cash	(550,000)
Cash and cash equivalents acquired	68,631
<b>Net cash used in operating activities</b>	<b>(481,369)</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

#### (c) Business Combination (continued)

Gain from bargaining purchase was due to the sellers, intention to wind up and exit from their investments in the property development business.

The acquired businesses contributed total revenues of RMB941,282,000 and net loss of RMB103,610,000 to the Group for the period from their respective acquisition dates to 31 December 2018. Had these companies been consolidated from 1 January 2018, the consolidated statement of profit or loss and other comprehensive income would show pro-forma revenue of RMB6,404,104,000 and profit for the year of RMB527,457,000.

As at 31 December 2018, the balance consideration of RMB50,000,000 will be payable in the first quarter of 2019 as per sale and purchase agreement or on an extended date mutually agreed.

### 41. EMPLOYEE RETIREMENT BENEFITS

#### Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 42. OPERATING LEASE COMMITMENTS

#### Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within one year	826	2,062

#### Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within one year	21,199	12,806
Later than one year but within five years	49,128	28,409
Later than five years	–	–
	<u>70,327</u>	<u>41,215</u>

### 43. COMMITMENTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	2,313,928	2,318,950

### 44. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 45. PLEDGE OF ASSETS

As at 31 December 2018 and 2017, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Leasehold land and building	221,398	190,409
Investment properties	1,867,157	615,400
Properties under development	6,370,886	2,847,096
Properties held for sale	–	567,658
Short-term investments	–	100,000
Pledged deposits	45,410	456,511
	8,504,851	4,777,074

In addition, at the 31 December 2018 and 2017, the Group's certain loan facilities were secured by:

- shares in certain subsidiaries of the Company;
- corporate guarantees provided by the Company; and
- personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d) provided by the Company.

### 46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

#### (a) Material transactions with related parties

Related party relationship	Type of transaction	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
		Transaction amount	
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received for office leasing to a related company	111	111
	(ii) Management fee paid to a related company	(200)	(200)
	(iii) Consideration paid for acquisition of a subsidiary from a related company ( <i>note 16</i> )	(45,126)	–
	(iv) Consideration received for disposal of Yongzhou Project to a related company	–	137,401



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 46. RELATED PARTY TRANSACTIONS (continued)

#### (b) Personal guarantee by the Chairman

As at 31 December 2018, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to lenders in respect of the loan facilities extended to some Company's subsidiaries as disclosed in notes 33(a) and 33(d)(i).

#### (c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is analysed as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Short-term benefits	30,400	28,735
Other long-term benefits	462	566
Equity-settled share-based payment expenses	2,802	3,355
	<b>33,664</b>	<b>32,656</b>

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Derivative financial asset		
– HK\$	60,388	46,144
Cash and cash equivalents		
– US\$	3,731	69,072
– HK\$	68,165	136,069
Bank and other borrowings		
– US\$	(202,186)	–
– HK\$	(2,157,092)	(2,102,053)
Derivative financial liabilities		
– HK\$	(10,895)	(12,333)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US\$ and HK\$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2018		2017	
	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>
If United States dollar weakens against Renminbi	4%	7,938	4%	(2,763)
If United States dollar strengthens against Renminbi	4%	(7,938)	4%	2,763
If Hong Kong dollar weakens against Renminbi	4%	81,577	4%	77,287
If Hong Kong dollar strengthens against Renminbi	4%	(81,577)	4%	(77,287)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2018		2017	
	Effective interest rate (% per annum)	Amount RMB'000	Effective interest rate (% per annum)	Amount RMB'000
<b>The Group</b>				
<b>Financial assets</b>				
Fixed rate receivables				
- Available-for-sale investment	-	-	8.00%	10,000
- Financial asset at fair value through profit or loss	8.00%	10,000	-	-
- Short term investments	-	-	3.30%	100,000
- Restricted and pledged deposits	1.60% to 1.82%	45,410	1.95% to 2.33%	456,511
Floating rate receivables				
- Loan to a non-controlling shareholder of a subsidiary	4.79%	51,847	4.79%	52,900
- Restricted and pledged deposits	0.35%	631,220	0.35%	856,753
- Other cash at bank	0.01% to 0.35%	2,410,063	0.01% to 0.35%	2,983,799
<b>Financial liabilities</b>				
Fixed rate borrowings				
- Other borrowings	7.50% to 14.07%	4,724,110	7.00% to 11.00%	2,057,926
Floating rate borrowings				
- Bank borrowings	3.00% to 8.50%	1,627,588	2.10% to 8.50%	2,217,368

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's floating rate restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2018		2017	
	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax <i>RMB'000</i>	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax <i>RMB'000</i>
<b>Floating rate financial assets</b>				
Increase in floating rate	100	30,942	100	38,814
Decrease in floating rate	(100)	(30,942)	(100)	(38,814)
<b>Floating rate financial liabilities</b>				
Increase in floating rate	500	(81,379)	500	(110,868)
Decrease in floating rate	(500)	81,379	(500)	110,868

#### (c) Credit risk

The Group's exposure to credit risk arises from the trade and other receivables, contract costs, refundable deposits for proposed projects and land held for development and loans to non-controlling shareholder of subsidiary. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers to whom credits are offered requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The Group measures loss allowances for trade and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (c) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for those exposed trade and other receivables as at 31 December 2018:

Trade receivables	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.1%	804	(1)
1 – 3 months past due	2%	175,294	(3,506)
More than 3 months but less than 1 year past due	5%	22,366	(1,118)
More than 1 year past due	10%	2,890	(289)
		201,354	(4,914)
Other receivables	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.1%	63,413	(63)
1 – 3 months past due	1%	36,770	(368)
More than 3 months but less than 6 year past due	3%	7,599	(228)
More than 6 months but less than 1 year past due	5%	2,918	(146)
More than 1 year past due	20%	15,591	(3,118)
		126,291	(3,923)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (c) Credit risk (continued)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(k)B(ii)). At 31 December 2017, there was no impairment on trade receivables. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 <i>RMB'000</i>
Current (not past due)	1,370
1 – 3 months past due	380
More than 3 months but less than 1 year past due	542
More than 1 year past due	539
	<u>2,831</u>

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade and other receivables during the two years is as follows:

	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 31 December 2017 under HKAS 39		1,570
Impact of initial application of HKFRS 9 (note 2(a)(ii))	<u>3,116</u>	3,116
Adjusted balance at 1 January 2018		4,686
Amounts written off during the year	–	–
Impairment losses recognised during the year	<u>5,721</u>	5,721
Balance at 31 December 2018		<u>10,407</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

#### (d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cash flow						Total RMB'000	Carrying amount RMB'000
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>2018</b>								
Trade and other payables	27,165	222,439	1,808,684	-	-	-	2,058,288	2,058,288
Bank and other borrowings	156,690	69,788	1,815,900	2,541,059	540,683	4,913,773	10,037,893	6,351,698
Amount due to a joint venture	55,817	-	-	-	-	-	55,817	55,817
Guarantee for property mortgage	7,617,557	-	-	-	-	-	7,617,557	-
	<b>7,857,229</b>	<b>292,227</b>	<b>3,624,584</b>	<b>2,541,059</b>	<b>540,683</b>	<b>4,913,773</b>	<b>19,769,555</b>	<b>8,465,803</b>
<b>2017</b>								
Trade and other payables	9,105	139,123	1,226,118	-	-	-	1,374,346	1,374,346
Bank and other borrowings	153,018	161,719	1,086,993	1,911,904	524,237	3,940,451	7,778,322	4,275,294
Guarantee for property mortgage	4,888,199	-	-	-	-	-	4,888,199	-
	<b>5,050,322</b>	<b>300,842</b>	<b>2,313,111</b>	<b>1,911,904</b>	<b>524,237</b>	<b>3,940,451</b>	<b>14,040,867</b>	<b>5,649,640</b>

#### Note:

As at 31 December 2018, the bank borrowings of the Group of approximately RMB43,810,000 (2017: RMB506,842,000) were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB45,410,000 (2017: bank deposits of RMB456,511,000 and short-term investments of RMB100,000,000) maturing at the same time of the bank borrowing.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2018		2017	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
<b>Financial assets</b>				
<b>Loans and receivable</b>				
– Trade and other receivables	1,611,504	(Note)	1,200,792	(Note)
– Refundable deposits for proposed projects and land held for development	803,908	(Note)	771,060	(Note)
– Contract costs	80,698	(Note)	–	(Note)
– Short-term investments	–	(Note)	100,000	(Note)
– Loan to a non-controlling shareholder of a subsidiary	51,847	(Note)	52,900	(Note)
– Restricted and pledged deposits	676,630	(Note)	1,313,264	(Note)
– Cash and cash equivalents	2,410,063	(Note)	2,983,799	(Note)
<b>Fair value through other comprehensive income</b>				
– Available-for-sale investment	–	–	10,000	(Note)
<b>Fair value through profit or loss</b>				
– FVTPL	10,000	(Note)	–	–
– Derivative embedded in unsecured bonds	60,388	60,388	46,144	46,144
<b>Financial liabilities</b>				
<b>Financial liabilities at amortised costs</b>				
– Trade and other payables	2,058,288	(Note)	1,374,346	(Note)
– Bank and other borrowings:				
the Secured Loans	2,799,778	(Note)	423,164	(Note)
the Secured Bonds	–	–	–	–
the Unsecured Bonds	1,646,900	1,375,225	1,018,754	914,527
bank and other borrowings	1,905,020	(Note)	2,833,376	(Note)
<b>Fair value through profit or loss</b>				
– Derivative embedded in unsecured bonds	10,895	10,895	12,333	12,333



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

#### *Financial instruments not measured at fair value*

Financial instruments not measured at fair value include trade and other receivables, refundable deposits for proposed projects and land held for development, contract costs, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

#### *Financial instruments measured at fair value*

The fair value of derivative instruments are calculated by option pricing models which are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2018	2017
	Level 3	Level 3
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial asset at fair value through profit or loss</b>		
– Derivative embedded in unsecured bonds (note 33)	<u>60,388</u>	<u>46,144</u>
<b>Financial liabilities at fair value through profit or loss</b>		
– Derivatives embedded in unsecured bonds (note 33)	<u>10,895</u>	<u>12,333</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset RMB'000	Financial liabilities RMB'000	2018 RMB'000	2017 RMB'000
At 1 January	(46,144)	12,333	(33,811)	4,337
Issue of the Secured/Unsecured Bonds	(12,301)	–	(12,301)	(27,180)
Early repayment of Unsecured Bonds	–	(1,979)	(1,979)	–
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,552	(76)	1,476	(13,080)
– Exchange differences	(3,495)	617	(2,878)	2,112
At 31 December	(60,388)	10,895	(49,493)	(33,811)

During the year ended 31 December 2018, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	2018	2017
			Level 3 RMB'000	Level 3 RMB'000
<b>Bank and other borrowings</b>				
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	1,375,225	914,527

Note: The fair value of the unsecured bonds were taken into account for the redemption features.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/ liabilities"	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs (Note)	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities/assets (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB32,513,000 and RMB34,040,000 respectively as at 31 December 2018 (2017: RMB28,631,000 and RMB29,998,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY As at 31 December 2018

	<i>Note</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Non-current assets</b>			
Interests in subsidiaries		3,500,078	2,962,429
Derivative financial asset		60,388	46,144
		3,560,466	3,008,573
<b>Current assets</b>			
Amounts due from subsidiaries		18,282	24,513
Prepayments and other receivables		28,961	21,492
Cash and cash equivalents		47,676	149,350
		94,919	195,355
<b>Current liabilities</b>			
Accruals and other payables		6,295	2,287
Bank and other borrowings – current portion		782,997	506,842
Derivative financial liabilities – current portion		2,138	–
Income tax payable		55,830	55,830
		847,260	564,959
<b>Net current liabilities</b>		(752,341)	(369,604)
<b>Total assets less current liabilities</b>		2,808,125	2,638,969
<b>Non-current liabilities</b>			
Other borrowings – non-current portion		1,419,108	1,441,918
Derivative financial liabilities – non-current portion		8,757	12,333
		1,427,865	1,454,251
<b>Net assets</b>		1,380,260	1,184,718
<b>Capital and reserves</b>			
Share capital		24,659	24,469
Reserves	50	1,355,601	1,160,249
<b>Total equity</b>		1,380,260	1,184,718

On behalf of the Board

Yu Pan  
Director

WANG Chenghua  
Director

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 50. RESERVES OF THE COMPANY

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Shares held for share award scheme reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	1,662,587	16,116	19,178	-	(392,114)	1,305,767
Issue of shares: upon exercise of share options	2,162	-	(727)	-	-	1,435
Recognition of equity-settled share-based payment expenses	-	-	6,185	-	-	6,185
Loss for the year	-	-	-	-	(153,138)	(153,138)
As at 31 December 2017 and at 1 January 2018	1,664,749	16,116	24,636	-	(545,252)	1,160,249
Effect on adoption of HKFRS 9	-	-	-	-	(10,618)	(10,618)
At 1 January 2018 (restated)	1,664,749	16,116	24,636	-	(555,870)	1,149,631
Issue of shares: upon exercise of share options	26,924	-	(9,498)	-	-	17,426
Recognition of equity-settled share-based payment expenses	-	-	5,709	-	-	5,709
Purchase of shares for share award scheme	-	-	-	(114,691)	-	(114,691)
Dividend and distribution	-	-	-	-	(86,087)	(86,087)
Profit for the year	-	-	-	-	383,613	383,613
At 31 December 2018	1,691,673	16,116	20,847	(114,691)	(258,344)	1,355,601

### 51. PRINCIPAL SUBSIDIARIES

	Notes	2018 RMB'000	2017 RMB'000
<b>Interests in subsidiaries – non-current portion</b>			
Unlisted investments, at cost	(a), (c)	3,500,078	2,962,429
<b>Amounts due from subsidiaries – current portion</b>			
Amounts due from subsidiaries	(b)	46,886	42,499
Less: Impact of initial application of HKFRS 9		(10,618)	-
Less: Provision for impairment loss		(17,986)	(17,986)
		18,282	24,513
		3,518,360	2,986,942
Amounts due to subsidiaries	(b)	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 51. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital		Percentage of equity interest held by the Company				Principal activities
		2018	2017	2018 Directly	2018 Indirectly	2017 Directly	2017 Indirectly	
重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited)*	PRC	RMB50,000,000	-	-	100%	-	-	Property development in the PRC
廣州市創譽管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited)* ("Chuanghaoyu")	PRC	United States dollar ("US\$") 6,000,000	United States dollar ("US\$") 6,000,000	-	100%	-	100%	Investment holding and property leasing
廣州市豪波置業有限公司 (Guangzhou Haojun Realty Company Limited)	PRC	RMB50,000,000	-	-	100%	-	100%	Investment holding
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	RMB53,000,000	-	100%	-	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	-	70%	-	70%	Provision of innovative technology operating services
廣州譽波諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("Gz Yu Jun")	PRC	HK\$8,000,000	HK\$5,000,000	-	100%	-	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK\$100	HK\$100	-	100%	-	100%	Investment holding
南寧市明安醫院管理有限公司 (Nanning Mingan Hospital Management Company Limited)* ("Nanning Mingan")	PRC	RMB210,000,000	-	-	70%	-	-	Hospital operation in the PRC
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("Nanning Jucheng")	PRC	RMB50,000,000	RMB50,000,000	-	80%	-	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Property development in the PRC
南寧天譽譽波投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital		Percentage of equity interest held by the Company				Principal activities
		2018	2017	2018 Directly	2018 Indirectly	2017 Directly	2017 Indirectly	
Skyfame Management Services Limited	Hong Kong	HK\$1	HK\$1	100%	-	100%	-	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK\$10,000	HK\$10,000	-	100%	-	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK\$1	HK\$1	-	100%	-	100%	Property investment
Winprofit Investments Limited	BVI	US\$100	US\$100	100%	-	100%	-	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* ("Xuzhou Yucheng")	PRC	RMB55,000,000	RMB138,000,000	-	70%	-	70%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* ("Xuzhou Jianyu")	PRC	RMB113,500,000	RMB311,500,000	-	78%	-	78%	Property development in the PRC
中山市天譽萬利房地產開發有限公司 (Zhongshan Tianyu Wanli Property Development Company Limited)*	PRC	RMB1,000,000	-	-	51%	-	-	Property development in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in PRC.

- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.
- (c) Summarised financial information on subsidiaries with material non-controlling interests  
Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

\* English name is for identification purpose only.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

#### Summarised statement of financial position

	Nanning Jucheng		Nanning Mingan		Xuzhou Yucheng		Xuzhou Jianyu		Zhongshan Tianyu	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current</b>										
Assets	2,776,736	3,995,632	12,305	-	2,159,480	1,034,548	619,733	722,068	932,685	304,946
Liabilities	(2,425,373)	(4,058,387)	(129,362)	-	(2,152,659)	(615,392)	(265,442)	(411,474)	(756,530)	(304,884)
	351,363	(62,755)	(117,057)	-	6,821	419,156	354,291	310,594	176,155	62
<b>Non-current</b>										
Assets	3,527	610	321,523	-	9,037	439	-	-	104	78
Liabilities	-	-	-	-	-	(291,390)	(242,316)	-	(182,155)	-
	3,527	610	321,523	-	9,037	(290,951)	(242,316)	-	(182,051)	78
<b>Net assets/(liabilities)</b>	354,890	(62,145)	204,466	-	15,858	128,205	111,975	310,594	(5,896)	140
<b>Accumulated non-controlling interests</b>	70,978	(12,429)	61,340	-	4,757	12,821	24,635	24,816	(2,889)	69

#### Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng		Nanning Mingan		Xuzhou Yucheng		Xuzhou Jianyu		Zhongshan Tianyu	
	For the year ended		For the year ended		For the year ended		For the year ended		For the year ended	
	31 December		31 December		31 December		31 December		31 December	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,342,767	766,222	-	-	-	-	-	-	-	-
Profit/(loss) before income tax	595,849	(16,606)	(661)	-	(23,319)	(24,350)	(618)	(906)	(6,036)	(860)
Income tax credit/(expense)	(185,734)	(12,305)	-	-	6,651	1,922	-	-	-	-
Profit/(loss) after tax and total comprehensive income	410,115	(28,911)	(661)	-	(16,668)	(22,428)	(618)	(906)	(6,036)	(860)
Profit/(loss) allocated to non-controlling interests	82,023	(5,781)	(198)	-	(5,000)	(2,243)	136	(72)	(2,958)	(421)
Dividends paid to non-controlling interests	-	(4,601)	-	-	-	-	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

#### Summarised statement of cash flows

	Nanning Jucheng		Nanning Mingan		Xuzhou Yucheng		Xuzhou Jianyu		Zhongshan Tianyu	
	For the year ended 31		For the year ended 31		For the year ended 31		For the year ended 31		For the year ended 31	
	December	December	December	December	December	December	December	December	December	December
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>										
Cash generated from/(used in)/from operations	182,703	(593,212)	(40,416)	-	738,509	69,688	104,181	(631,395)	(199,534)	(304,072)
Income tax paid	(27,474)	(4,929)	-	-	(50,519)	(10,907)	-	-	(1,427)	-
Other borrowing costs paid	-	-	-	-	(6,720)	-	(6,720)	-	-	-
Interest paid	-	-	-	-	3,430	(3,986)	(19,211)	-	-	-
<b>Net cash from/(used in) from operating activities</b>	<b>155,229</b>	<b>(598,141)</b>	<b>(40,416)</b>	<b>-</b>	<b>684,700</b>	<b>54,795</b>	<b>78,250</b>	<b>(631,395)</b>	<b>(200,961)</b>	<b>(304,072)</b>
<b>Cash flows from investing activities</b>										
Interest received	3,055	3,134	20	-	693	270	60	4	53	7
Purchase of property, plant and equipment	-	-	(15,282)	-	(169)	(528)	-	-	(44)	(82)
Increase in restricted and pledged deposits	(57,612)	46,902	-	-	-	-	-	-	-	-
<b>Net cash from/(used in) investing activities</b>	<b>(54,557)</b>	<b>50,036</b>	<b>(15,262)</b>	<b>-</b>	<b>524</b>	<b>(258)</b>	<b>60</b>	<b>4</b>	<b>9</b>	<b>(75)</b>
<b>Cash flows from financing activities</b>										
New bank and other borrowings	-	-	-	-	-	114,000	241,400	-	182,154	-
Repayment of bank and other borrowings	-	-	-	-	(114,000)	-	-	-	-	-
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	(63,292)	592,770	55,000	-	(534,132)	80,083	(374,838)	698,258	97,970	304,884
Capital contribution from shareholders	-	-	-	-	-	-	(11)	-	-	1,000
<b>Net cash from/(used in) financing activities</b>	<b>(63,292)</b>	<b>592,770</b>	<b>55,000</b>	<b>-</b>	<b>(648,132)</b>	<b>194,083</b>	<b>(133,449)</b>	<b>698,258</b>	<b>280,124</b>	<b>305,884</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>37,380</b>	<b>44,665</b>	<b>(678)</b>	<b>-</b>	<b>37,092</b>	<b>248,620</b>	<b>(55,139)</b>	<b>66,867</b>	<b>79,172</b>	<b>1,737</b>
Cash and cash equivalents at beginning of year/period	114,400	69,735	5,255	-	248,920	300	66,867	-	1,737	-
<b>Cash and cash equivalents at the end of year</b>	<b>151,780</b>	<b>114,400</b>	<b>4,577</b>	<b>-</b>	<b>286,012</b>	<b>248,920</b>	<b>11,728</b>	<b>66,867</b>	<b>80,909</b>	<b>1,737</b>

The information above is the amount before inter-company eliminations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**52. SUBSEQUENT EVENT**

No reportable event after the reporting period was noted.

**53. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the Board on 22 March 2019.

## FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
<b>RESULTS</b>					
<i>For the year ended 31 December</i>					
Revenue	<b>6,191,763</b>	4,080,514	1,507,971	306,321	157,870
Profit/(loss) before income tax	<b>1,644,102</b>	1,038,504	95,757	(208,483)	(168,326)
Income tax (expense)/credit	<b>(823,346)</b>	(491,232)	(9,518)	(23,781)	8,346
Profit/(loss) before income tax	<b>820,756</b>	547,272	86,239	(232,264)	(159,980)
Attributable to					
– Owners of the Company	<b>751,315</b>	550,460	92,918	(211,769)	(141,252)
– Non-controlling interests	<b>69,441</b>	(3,188)	(6,679)	(20,495)	(18,728)
	<b>820,756</b>	547,272	86,239	(232,264)	(159,980)
<b>FINANCIAL POSITION</b>					
<i>At 31 December</i>					
Total assets	<b>21,236,989</b>	16,252,454	13,920,633	10,357,027	6,924,966
Total liabilities	<b>(17,933,430)</b>	(13,873,827)	(12,120,665)	(8,848,022)	(5,189,352)
Net assets	<b>3,303,559</b>	2,378,627	1,799,968	1,509,005	1,735,614
Non-controlling interests	<b>(390,134)</b>	(52,598)	(34,859)	(5,065)	(25,560)
Equity attributable to owners of the Company	<b>2,913,425</b>	2,326,029	1,765,109	1,503,940	1,710,054

## PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area (sq.m.)	Estimated project gross floor area (GFA) (sq.m.)	Project type	Effective equity interest % held	Expected completion year	Status	Estimated undelivered	Market value	Market value	Carrying	
								saleable GFA at 31.12.2018 (sq.m.)	in existing state RMB'000	attributable to the Group RMB'000	book value RMB'000	attributable to the Group RMB'000
(A) Details of the Group's properties under development/held for sale at 31 December 2018 are as follows:												
1. Guangzhou Skyfame Byland: Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China.	2009 to 2049/ 2059/ 2079	43,609	319,090	Residential/ Commercial	100%	2017	Completed	28,000	2,060,000 (Note 1)	2,060,000 (Note 2)	600,899	600,899
2. Zhongshan Skyfame Rainbow: Rainbow planning area, West District, Zhongshan, Guangdong Province, China	2003 to 2073	35,389	105,077	Residential/ Ancillary commercial	51%	2020	Construction in progress	88,000	886,000 (Note 1)	451,900	811,544	413,887
3. Nanning Skyfame Garden: Liangxing Road, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, China	2014 to 2054/ 2084	231,563	1,212,296	Residential/ Ancillary commercial	80%	2016 to 2018	Completed	475,000	3,079,000 (Note 1)	2,463,200	2,023,381	1,618,705
4. Nanning Skyfame ASEAN Maker Town: North of Wuxiang Avenue, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, China	2015 to 2055/ 2065/ 2085	194,221	1,319,137	Complex	100%	2018 to 2024	Completed/ Construction in progress	910,000	5,412,000 (Note 1)	5,412,000	2,227,274	2,227,274
5. Xuzhou Skyfame Time City: Quanshan District, Xuzhou, Jiangsu Province, China	2016 to 2056/ 2086	172,764	468,298	Residential/ Ancillary commercial	70%	2019 to 2020	Construction in progress	386,000	1,343,000 (Note 1)	940,100	858,494	600,946
6. Xuzhou Skyfame Elegance Garden: Quanshan District, Xuzhou, Jiangsu Province, China	2017 to 2057/ 2087	73,823	204,568	Residential/ Ancillary commercial	78%	2021 to 2022	Construction in progress	164,000	560,000 (Note 1)	436,800	562,458	438,717
7. Chongqing Project: The junction of Tenglong Da Road and Chaotianmen Yangtze River Bridge, Danzishi, Nanan District, Chongqing, China	2014 to 2054/ 2064	219,336	Phase 1: 312,542 Phase 2: 866,202	Complex	100%	2017 to 2023	Completed/ Construction in progress	Phase 1: 87,000 Phase 2: 680,000	4,302,000 (Note 1)	4,302,000	4,271,747	4,271,747
8. Kunming Anning Linxi Valley: Linxi Valley of Phase 1, Anhua area of the Taiping New City District, Anning, Kunming, Yunnan Province, China	2015 to 2054/55 and 2084/85	190,836	296,162	Villa/ Residential/ Ancillary commercial	40%	2020 to 2021	Construction in progress	253,000	352,000 (Note 1)	140,800	342,570	137,028
		<u>1,161,541</u>	<u>5,103,372</u>					<u>3,071,000</u>	<u>17,994,000</u>	<u>16,206,800</u>	<u>11,698,367</u>	<u>10,309,203</u>

## PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area (sq.m.)	Gross floor area (GFA) (sq.m.)	Usage	Effective equity interest % held	Expected completion year	Status	Market value in existing state RMB'000	Market value attributable to the Group RMB'000
(B) Details of the Group's investment properties at 31 December 2018 are as follows:									
1. Apartments on Chongqing Skyfame Smart City, of Phase 2, Danzishi, Nanan District, Chongqing, China	2014 to 2054		248,800	Commercial/ Serviced apartment	100%	2023	Construction in progress	1,215,000 (Note 1)	1,215,000
2. Block A1, Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China	2009 to 2049		9,475	Hotel/ Serviced apartment	100%	2019	Under final inspection for completion	520,000 (Note 1)	520,000
3. 800 Car parking spaces on LG1 to LG3, Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China	2009 to 2049		9,600	Car parking	100%			520,000 (Note 1)	520,000
4. Retail units on 2/F, 4/F and 5/F, Tianyu Garden Phase 2, 136 Linhe Zhong Road, Tianhe District, Guangdong Province, China	2000 to 2040		17,343	Office/ Retail	100%			469,000 (Note 1)	469,000
5. Office units on 9/F, 10/F and 11/F of HNA City Square, 365 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, China	2005 to 2055		1,498	Office	100%			51,700 (Note 1)	51,700
6. Unit 02-04, 14th Floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	1928 to 2027		577	Office	100%			131,467 (Note 3)	131,467
			<u>287,293</u>					<u>2,907,167</u>	<u>2,907,167</u>

(C) Details of the Group's leasehold land and building at 31 December 2018 are as follows:

1. Nanning Mingan Hospital: 15 Xinliang Road, Liangqing District, Nanning, Guangxi Zhuang Autonomous Region, China	2015 to 2065	80,002	107,802	Hospital	70%	2020	Construction in progress	407,000 (Note 1)	284,900
2. Office units on 32/F & 33/F of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, China	2001 to 2051		4,126	Office	100%			161,000 (Note 1)	161,000
3. Retail units on 6/F, Tianyu Garden Phase 2, 138-146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, China	2000 to 2040		2,448	Office/ Retail	100%			46,000 (Note 1)	46,000
4. 15/F., Block 1, Chongqing Skyfame Smart City of phase 1, Danzishi, Nanan District, Chongqing, China	2014 to 2054		933	Office	100%			12,000 (Note 1)	12,000
5. Units 01 and 05 of 14th Floor, and 2 Car Parking Spaces (Nos. 307 and 308), Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	1928 to 2027		770	Office/ Car parking	100%			180,460 (Note 3)	180,460
			<u>116,079</u>					<u>806,460</u>	<u>684,360</u>
								<u>21,707,627</u>	<u>19,798,327</u>

## Notes:

- The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd., Chartered Surveyors, as at 31 December 2018. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.
- The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.
- The properties were revalued on an open market value basis by an independent firm of professional valuers, CBRE Limited, Chartered Surveyors, as at 31 December 2018.

## INDEPENDENT AUDITOR'S REPORT



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永安中心25樓

**TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED**  
*(incorporated in Bermuda with limited liability)*

### OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 73 to 165, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT

### **Carrying value of properties held for development, properties under development and properties held for sale**

The Group held several property projects and had entered into several arrangements during the year ended 31 December 2017 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties held for development, properties under development and properties held for sale as at 31st December 2017 were RMB488 million, RMB3,552 million and RMB3,754 million respectively.

For the properties held for development and properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties held for development, properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 22 and 23 in the consolidated financial statements.

### **How our audit addressed the key audit matter:**

Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;
- Discussing with the management and understanding the details of the properties development projects;
- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;

## INDEPENDENT AUDITOR'S REPORT

- Checking to payment advices and verifying the amounts paid;
- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties held for development, properties under development and properties held for sale;
- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

### Valuation of investment properties

Management estimated the fair value of the Group's investment properties to be RMB1,094 million at 31 December 2017, with a revaluation gain of RMB36 million and gain on properties valuation of RMB353 million for the year ended 31 December 2017 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

### How our audit addressed the key audit matter:

Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.



## INDEPENDENT AUDITOR'S REPORT

### OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**

*Certified Public Accountants*

**Chan Wing Fai**

*Practising Certificate no. P05443*

Hong Kong, 26 March 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Revenue</b>	7	<b>4,080,514</b>	1,507,971
Cost of sales and services		<b>(3,197,387)</b>	(1,196,640)
Gross profit		<b>883,127</b>	311,331
Other income and gains, net		<b>34,100</b>	4,048
Sales and marketing expenses		<b>(152,913)</b>	(106,971)
Administrative and other expenses		<b>(219,828)</b>	(163,597)
Unrealised exchange gains/(losses)		<b>111,909</b>	(97,231)
Fair value changes in investment properties	17	<b>35,701</b>	10,051
Gain on properties valuation		<b>353,351</b>	–
Fair value changes in derivative financial asset/liabilities		<b>13,080</b>	11,121
Loss on early repayment of term loans		<b>(23,418)</b>	–
Gain on disposal of subsidiaries		–	97,285
Finance costs	8	<b>(33,088)</b>	(3,051)
Finance income	8	<b>36,483</b>	32,771
<b>Profit before income tax</b>	9	<b>1,038,504</b>	95,757
Income tax expenses	13	<b>(491,232)</b>	(9,518)
<b>PROFIT FOR THE YEAR</b>		<b>547,272</b>	86,239
<b>Other comprehensive income, items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences arising on foreign operations		<b>2,827</b>	(138)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>550,099</b>	86,101
<b>Profit for the year attributable to:</b>			
– Owners of the Company	14	<b>550,460</b>	92,918
– Non-controlling interests		<b>(3,188)</b>	(6,679)
		<b>547,272</b>	86,239
<b>Total comprehensive income for the year attributable to:</b>			
– Owners of the Company		<b>553,287</b>	92,780
– Non-controlling interests		<b>(3,188)</b>	(6,679)
		<b>550,099</b>	86,101
<b>Earnings per share</b>	14		
– Basic		<b>RMB0.210</b>	RMB0.038
– Diluted		<b>RMB0.210</b>	RMB0.038

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

	<i>Notes</i>	<b>2017</b> <b>RMB'000</b>	2016 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	16	239,497	251,390
Investment properties	17	1,094,400	588,370
Goodwill	18	13,554	13,554
Available-for-sale investment	19	10,000	10,000
Loan to a non-controlling shareholder of a subsidiary	25	52,900	–
Derivative financial assets	33	46,144	9,022
Deferred tax assets	34	18,142	57,353
		<b>1,474,637</b>	929,689
<b>Current assets</b>			
Properties held for development	22	488,072	161,160
Properties under development	22	3,552,378	7,971,027
Properties held for sale	23	3,754,243	177,228
Considerations receivable	21	–	277,401
Loan to a non-controlling shareholder of a subsidiary	25	–	52,900
Trade and other receivables	26	1,200,792	862,037
Prepayments/deposits for proposed projects	27	1,385,269	614,093
Short-term investments	28	100,000	–
Prepaid income tax		–	93,368
Restricted and pledged deposits	29	1,313,264	987,290
Cash and cash equivalents	30	2,983,799	1,794,440
		<b>14,777,817</b>	12,990,944
<b>Current liabilities</b>			
Trade and other payables	31	1,374,346	1,190,525
Properties pre-sale deposits		7,821,274	7,290,196
Bank and other borrowings – current portion	33	1,171,198	1,067,634
Derivative financial liabilities – current portion	33	–	11,177
Income tax payable		137,192	–
		<b>10,504,010</b>	9,559,532
<b>Net current assets</b>		<b>4,273,807</b>	3,431,412
<b>Total assets less current liabilities</b>		<b>5,748,444</b>	4,361,101

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>Non-current liabilities</b>			
Bank and other borrowings – non-current portion	33	3,104,096	2,388,429
Derivative financial liabilities – non-current portion	33	12,333	2,182
Deferred tax liabilities	34	253,388	170,522
		<u>3,369,817</u>	<u>2,561,133</u>
<b>Net assets</b>		<u>2,378,627</u>	1,799,968
<b>Capital and reserves</b>			
Share capital	35	24,469	24,456
Reserves	36	2,301,560	1,740,653
<b>Equity attributable to owners of the Company</b>		2,326,029	1,765,109
<b>Non-controlling interests</b>		52,598	34,859
<b>Total equity</b>		<u>2,378,627</u>	1,799,968

On behalf of the Board

**YU Pan**  
*Director*

**WEN Xiaobing**  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Notes	Attributable to owners of the Company													Total
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/capital reserve	Retained profits	Sub-total	Non-controlling interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	21,068	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,503,940	5,065	1,509,005	
Profit for the year	-	-	-	-	-	-	-	-	-	92,918	92,918	(6,679)	86,239	
Other comprehensive expenses	-	-	-	-	-	-	-	(138)	-	-	(138)	-	(138)	
Total comprehensive expenses for the year	-	-	-	-	-	-	-	(138)	-	92,918	92,780	(6,679)	86,101	
Issue of shares:														
Share placing issue	35(a)	3,388	159,217	-	-	-	-	-	-	-	162,605	-	162,605	
Share issue expenses		-	(3,812)	-	-	-	-	-	-	-	(3,812)	-	(3,812)	
Transfer among reserves		-	-	-	(34,499)	-	-	-	-	34,499	-	-	-	
Capital contribution		-	-	-	-	-	-	-	-	-	-	14,144	14,144	
Disposals of subsidiaries	38(c)	-	-	-	-	-	-	-	-	-	-	22,329	22,329	
Recognition of equity-settled share-based payment expenses	37	-	-	-	9,596	-	-	-	-	-	9,596	-	9,596	
Reallocation of lapsed options from share-based payment reserve to retained profits		-	-	-	(994)	-	-	-	-	994	-	-	-	
At 31 December 2016 and 1 January 2017		24,456	1,662,587	16,116	19,178	-	(293,095)	6,471	(1,441)	743	330,094	1,765,109	34,859	1,799,968
Profit for the year		-	-	-	-	-	-	-	-	550,460	550,460	(3,188)	547,272	
Other comprehensive expenses		-	-	-	-	-	-	2,827	-	-	2,827	-	2,827	
Total comprehensive expenses for the year		-	-	-	-	-	-	2,827	-	550,460	553,287	(3,188)	550,099	
Issue of shares:														
Exercise of share options	35(a)	13	2,162	-	(727)	-	-	-	-	-	1,448	-	1,448	
Capital contribution		-	-	-	-	-	-	-	-	-	-	25,529	25,529	
Recognition of equity-settled share-based payment expenses	37	-	-	-	6,185	-	-	-	-	-	6,185	-	6,185	
Dividend paid to non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	(4,602)	(4,602)	
At 31 December 2017		24,469	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	880,554	2,326,029	52,598	2,378,627

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Net cash from operating activities</b>	38(a)	<b>972,514</b>	<b>378,383</b>
<b>Investing activities</b>			
Interest received		42,543	27,437
Disposal of subsidiaries, net of cash disposed of	38(c)	–	125,159
Purchases of property, plant and equipment		(9,273)	(1,883)
Acquisition of available-for-sale investment		–	(10,000)
Acquisition of short-term investments		(951,000)	(760,000)
Disposal of short-term investments		851,000	1,220,000
Loan advanced to a non-controlling shareholder of a subsidiary		–	(32,500)
Increase in restricted and pledged deposits		(325,974)	(64,561)
Net cash (used in)/from investing activities		<b>(392,704)</b>	<b>503,652</b>
<b>Financing activities</b>	38(b)		
Proceeds from shares issued under share placing	35(a)	–	162,605
Proceeds from shares issued under share option scheme	35(a)	1,448	–
Expenses incurred on issue of shares		–	(3,812)
New bank and other borrowings		5,158,509	4,090,870
Repayment of bank and other borrowings		(2,587,677)	(2,612,688)
Other borrowing costs paid		(106,819)	(99,370)
Interest paid		(1,879,589)	(1,022,267)
Dividend paid to non-controlling shareholder		(4,602)	–
Capital contributions from non-controlling shareholders of subsidiaries		25,529	14,144
Net cash from financing activities		<b>606,799</b>	<b>529,482</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,186,609</b>	<b>1,411,517</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>2,750</b>	<b>(332)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,794,440</b>	<b>383,255</b>
<b>Cash and cash equivalents at end of year</b>	30	<b>2,983,799</b>	<b>1,794,440</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 1. GENERAL

Skyfame Realty (Holdings) Limited (the “**Company**”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Its (a) registered office, (b) head office and principal place of business in the People’s Republic of China (“**PRC**”), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company’s parent is Grand Cosmos Holdings Limited (“**Grand Cosmos**”) and the directors of the Company (the “**Directors**”) consider its ultimate holding company is Sharp Bright International Limited (“**Sharp Bright**”). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the “**BVI**”).

The Company and its subsidiaries are hereinafter collectively referred to as the “**Group**”. The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

#### (a) Adoption of new/revised HKFRSs

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

#### *Amendments to HKAS 7 – Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement, note 38(b).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

#### (a) Adoption of new/revised HKFRSs (continued)

##### *Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

##### *Amendments to HKAS 40 – Transfers of Investment Property*

The new standard will be effective for annual periods beginning on or after 1 January 2018. The Group has early applied the new standard that has been issued but not yet effective.

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

##### *Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements have been issued but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards <sup>1</sup>
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

#### *HKFRS 9 – Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

##### *HKFRS 9 – Financial Instruments (continued)*

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and summarised as follows:

#### (i) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

#### (ii) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade or other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has expected that the provision for impairment will increase upon the initial adoption of the standard.

##### *HKFRS 15 – Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

##### *HKFRS 15 – Revenue from Contracts with Customers (continued)*

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group principal activities consisted of property development, investment and management. During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 15. The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group’s financial performance and financial position.

However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and may significantly increase the volume of disclosures required in the Group’s financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of most of these disclosure requirements will not be significant.

##### *HKFRS 16 – Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

##### *HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

##### *HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments*

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

##### *Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

##### *Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation’s permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

#### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

##### *Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

##### *Amendments to HKFRS 9 – Prepayment Features with Negative Compensation*

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

##### *Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

##### *Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 3. BASIS OF PREPARATION

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

#### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties, available-for-sale investment and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

#### (c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

#### (d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is same as the functional currency of the Company and its principal subsidiaries.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Business combination and basis of consolidation (continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

#### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the net assets of the joint arrangement; or
- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

#### (e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs 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 recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Property, plant and equipment (continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

#### (f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

#### (g) Properties under development

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

#### (i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Financial instruments

##### (i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

##### Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

##### (ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Financial instruments (continued)

##### (ii) *Impairment loss on financial assets (continued)*

###### For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

###### Available-for-sale investments

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

##### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

###### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Financial instruments (continued)

##### (iii) *Financial liabilities (continued)*

###### Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

###### Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

##### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

##### (v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

##### (vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Financial instruments (continued)

##### (vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

#### (k) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

- (i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.
- (ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.
- (iii) Property management service income is recognised when services are provided.
- (iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

#### (m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

#### (n) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (o) Employee benefits

##### (i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

##### (ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

##### (iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

#### (p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- No longer exists or may have dec investment property under cost model;
- No longer exists or may have dec investment property under cost model;
- Investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (s) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

##### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Leasing (continued)

##### *The Group as lessee*

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

#### (t) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (t) Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

#### (u) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### (a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

#### (b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax 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 have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### (c) Land appreciation taxes

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

#### (d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

#### (e) Prepayments/Deposits for proposed projects

Management of the Group assesses the carrying amounts of prepayments/deposits for proposed projects according to their recoverable amounts based on the realisability of these property development projects, taking into account estimated net sales values based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### (f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Critical judgments in applying accounting policies are as follows:

#### (a) Consideration from disposal of Tianhe Project

During the year ended 31 December 2016, the management makes judgement on whether the revenue recognition criteria under HKAS 18 Revenue in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. As fully satisfied the revenue recognition criteria, the related revenue and costs of the project are charged to profit or loss for the year. More details have been set out in note 34.

#### (b) Acquisition of projects

During the year ended 31 December 2016 and 2017, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, other than the operations in the youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the Group is operating in three principal operating divisions, i.e. property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the People's Republic of China (the "PRC") and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Provision of property management services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, gain from bargain purchase and write-down of properties under development/ held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial assets/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**6. SEGMENT REPORTING (continued)**

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
<b>Year ended 31 December 2017</b>				
<b>Segment revenue</b>				
Reportable segment revenue	4,042,763	25,504	42,146	4,110,413
Elimination of intra-segment revenue	–	(7,895)	(22,004)	(29,899)
<b>Consolidated revenue from external customers</b>	<b>4,042,763</b>	<b>17,609</b>	<b>20,142</b>	<b>4,080,514</b>
<b>Segment results</b>				
	655,580	6,767	(23,332)	639,015
<i>Reconciliation:</i>				
Unallocated other revenue				17,380
				656,395
Fair value changes in investment properties	–	35,701	–	35,701
Gain on properties valuation	–	353,351	–	353,351
Loss on early repayment of term loans				(23,418)
Fair value changes in derivative financial asset/liabilities				13,080
Finance costs				(33,088)
Finance income				36,483
<b>Consolidated profit before income tax</b>				<b>1,038,504</b>
<b>Other segment information:</b>				
Depreciation and amortisation	(1,786)	(768)	(1,777)	(4,331)
Additions to properties held for/ under development	2,505,692	–	–	2,505,692
Capital expenditure	3,476	–	340	3,816
<b>As at 31 December 2017</b>				
<b>Assets and liabilities</b>				
<b>Assets</b>				
Reportable segment assets	10,427,908	1,850,264	40,556	12,318,728
<i>Reconciliation:</i>				
Derivative financial assets				46,144
Available-for-sale investment				10,000
Short-term investments				100,000
Deferred tax assets				18,142
Cash and cash equivalents				2,983,799
Unallocated restricted and pledged deposits				456,511
Unallocated corporate assets				
– Leasehold land and building				190,409
– Other corporate assets				128,721
<b>Consolidated total assets</b>				<b>16,252,454</b>
<b>Liabilities</b>				
Reportable segment liabilities	10,913,563	64,145	19,434	10,997,142
<i>Reconciliation:</i>				
Income tax payable				137,192
Deferred tax liabilities				253,388
Derivative financial liabilities				12,333
Unallocated bank and other borrowings				2,463,795
Unallocated corporate liabilities				9,977
<b>Consolidated total liabilities</b>				<b>13,873,827</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 6. SEGMENT REPORTING (continued)

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
<b>Year ended 31 December 2016</b>				
<b>Segment revenue</b>				
Reportable segment revenue	1,471,330	24,549	32,863	1,528,742
Elimination of intra-segment revenue	–	(8,035)	(12,736)	(20,771)
<b>Consolidated revenue from external customers</b>	<b>1,471,330</b>	<b>16,514</b>	<b>20,127</b>	<b>1,507,971</b>
<b>Segment results</b>	<b>(214,367)</b>	<b>7,800</b>	<b>(12,809)</b>	<b>(219,376)</b>
<i>Reconciliation:</i>				
Unallocated other revenue				166,956
				(52,420)
Fair value changes in investment properties	–	10,051	–	10,051
Gain on disposal of subsidiaries	97,285	–	–	97,285
Fair value changes in derivative financial asset/liabilities				11,121
Finance costs				(3,051)
Finance income				32,771
<b>Consolidated profit before income tax</b>				<b>95,757</b>
<b>Other segment information:</b>				
Depreciation and amortisation	(1,592)	(805)	(1,747)	(4,144)
Impairment loss on trade and other receivables	–	(11)	(156)	(167)
Additions to properties under Tianhe project	37,495	–	–	37,495
Additions to properties held for/under development	2,298,694	–	–	2,298,694
Capital expenditure	1,708	–	153	1,861
<b>As at 31 December 2016</b>				
<b>Assets and liabilities</b>				
<b>Assets</b>				
Reportable segment assets	9,927,387	1,283,999	41,697	11,253,083
<i>Reconciliation:</i>				
Derivative financial assets				9,022
Available-for-sale investment				10,000
Prepaid income tax				93,368
Deferred tax assets				57,353
Cash and cash equivalents				1,794,440
Unallocated restricted and pledged deposits				375,382
Unallocated corporate assets				
– Leasehold land and building				205,778
– Other corporate assets				122,207
<b>Consolidated total assets</b>				<b>13,920,633</b>
<b>Liabilities</b>				
Reportable segment liabilities	9,670,023	12,733	12,273	9,695,029
<i>Reconciliation:</i>				
Deferred tax liabilities				170,522
Derivative financial liabilities				13,359
Unallocated bank and other borrowings				2,232,665
Unallocated corporate liabilities				9,090
<b>Consolidated total liabilities</b>				<b>12,120,665</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**6. SEGMENT REPORTING (continued)****Information about major customers**

Revenue from customers contributing over 10% of total revenue of the Group is as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
HNA Hotel (Note)	–	1,115,557

*Note:* Revenue from sale of properties in Tianhe Project

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2017.

**7. REVENUE**

Revenue represents the amounts arising on sales of properties, rental income from the operating leases of investment properties and provision of property management services. The amounts of each significant category of revenue recognised during the year are as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of properties	4,042,763	1,471,268
Rental income	17,609	16,576
Property management services	20,142	20,127
	<b>4,080,514</b>	<b>1,507,971</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 8. FINANCE COSTS AND INCOME

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Finance costs:</b>		
Interest on bank and other borrowings	314,888	203,207
<i>Less: Amount capitalised as properties under development</i>		
Interest on bank and other borrowings	<u>(281,822)</u>	<u>(200,169)</u>
	33,066	3,038
Other borrowing costs	17,725	14,041
<i>Less: Amount capitalised as properties under development</i>	<u>(17,703)</u>	<u>(14,028)</u>
	22	13
Finance costs charged to profit or loss	<u>33,088</u>	<u>3,051</u>
<b>Finance income:</b>		
Bank interest income	24,953	24,876
Interest income on short-term investments	8,884	6,325
Interest income on loan to a non-controlling shareholder of a subsidiary	<u>2,646</u>	<u>1,570</u>
Finance income credited to profit or loss	<u>36,483</u>	<u>32,771</u>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 8.4% (2016: 9.0%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**9. PROFIT BEFORE INCOME TAX**

Profit before income tax for the year has been arrived at after charging/(crediting):

	<i>Notes</i>	2017 <b>RMB'000</b>	2016 <b>RMB'000</b>
Cost of properties sold		3,054,029	1,186,772
Write-down of properties under development/ properties held for sale		131,299	–
Cost of inventories recognised in profit or loss		3,185,328	1,186,772
Staff costs, including directors' emoluments	10	132,701	102,344
Auditor's remuneration			
– current year		1,206	1,382
– non-audit services		–	548
Depreciation of property, plant and equipment	16	13,460	13,731
<i>Less: Amount capitalised as properties under development</i>	22	(127)	(139)
Depreciation charged to profit or loss		13,333	13,592
Amortisation of leasehold land	16	3,407	3,407
Depreciation and amortisation charged to profit or loss		16,740	16,999
Minimum lease payments under operating lease in respect of:			
– rented other premises		1,136	320
Unrealised exchange (gain)/loss		(111,909)	97,231
Impairment loss on trade and other receivables		–	167
Direct operating expenses arising from investment properties that generated rental income		2,630	2,475
Direct operating expenses arising from investment properties that did not generate rental income		48	234

**10. STAFF COSTS**

	2017 <b>RMB'000</b>	2016 <b>RMB'000</b>
<b>Staff costs (including directors' emoluments) comprise:</b>		
Basic salaries and other benefits	105,444	95,815
Bonuses	62,281	46,423
Equity-settled share-based payment expenses	6,185	9,596
Contributions to defined contribution pension plans	6,165	5,262
	180,075	157,096
<i>Less: Amount capitalised as properties under development</i>	(47,374)	(54,752)
Staff costs charged to profit or loss	132,701	102,344

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000 (note (a))	Bonuses RMB'000 (note (b))	Equity-settled share-based payment expenses RMB'000	Contributions to defined contribution pension plan RMB'000	Total RMB'000
<b>2017</b>						
<b>Executive directors</b>						
YU Pan	-	2,228	691	-	16	2,935
WEN Xiaobing	104	1,747	913	809	73	3,646
WONG Lok	-	231	-	-	11	242
JIANG Jing (resigned on 25 April 2017)	35	238	-	-	23	296
<b>Non-executive director</b>						
LI Weijing (appointed on 7 August 2017)	-	-	-	-	-	-
ZHONG Guoxing (resigned on 20 July 2017)	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
CHOY Shu Kwan	209	-	-	52	-	261
CHENG Wing Keung, Raymond	209	-	-	52	-	261
CHUNG Lai Fong	209	-	-	52	-	261
	<b>766</b>	<b>4,444</b>	<b>1,604</b>	<b>965</b>	<b>123</b>	<b>7,902</b>
<b>2016</b>						
<b>Executive directors</b>						
YU Pan	-	2,104	795	-	15	2,914
WEN Xiaobing	102	1,747	691	1,164	68	3,772
WONG Lok	-	226	-	-	11	237
JIANG Jing	102	755	63	-	68	988
<b>Non-executive director</b>						
ZHONG Guoxing	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
CHOY Shu Kwan	205	-	-	133	-	338
CHENG Wing Keung, Raymond	205	-	-	133	-	338
CHUNG Lai Fong	205	-	-	133	-	338
	<b>819</b>	<b>4,832</b>	<b>1,549</b>	<b>1,563</b>	<b>162</b>	<b>8,925</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap.32.

Notes:

- (a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.
- (b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.
- (c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the year are not included in note 12 below.
- (d) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 37 to the financial statements. Further details of the options granted are set out in Note 37.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

### 12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, one (2016: two) is/are Director whose emoluments is/are included in note 11 above. The emoluments of the remaining four (2016: three) are as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries and other benefits	6,306	4,412
Bonuses	9,610	2,966
Equity-settled share-based payment expenses	2,137	3,326
Contributions to defined contribution pension plans	233	152
	18,286	10,856

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments are within the following bands:

	Number of individuals	
	2017	2016
RMB2,926,001 to RMB3,344,000 (equivalent to HK\$3,500,001 to HK\$4,000,000)	1	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK\$4,000,001 to HK\$4,500,000)	–	2
RMB4,180,000 to RMB4,597,000 (equivalent to HK\$5,000,001 to HK\$5,500,000)	1	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK\$6,000,001 to HK\$6,500,000)	2	–

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2017	2016
RMBNil to RMB836,000 (equivalent to HK\$Nil to HK\$1,000,000)	–	1
RMB836,001 to RMB1,254,000 (equivalent to HK\$1,000,001 to HK\$1,500,000)	–	1
RMB1,254,001 to RMB1,672,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	2	2
RMB2,090,001 to RMB2,508,000 (equivalent to HK\$2,500,001 to HK\$3,000,000)	–	1
RMB2,926,001 to RMB3,344,000 (equivalent to HK\$3,500,001 to HK\$4,000,000)	2	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK\$4,000,001 to HK\$4,500,000)	–	2
RMB4,180,001 to RMB4,597,000 (equivalent to HK\$5,000,001 to HK\$5,500,000)	1	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK\$6,000,001 to HK\$6,500,000)	1	–
RMB5,433,001 to RMB5,851,000 (equivalent to HK\$6,500,001 to HK\$7,000,000)	1	–

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**13. INCOME TAX EXPENSE**

The amount of taxation in the consolidated statement of comprehensive income represents:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current tax</b>		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	<b>198,341</b>	60,228
PRC LAT		
– current year	<b>170,814</b>	4,902
	<b>369,155</b>	65,130
<b>Deferred tax</b>		
PRC corporate tax		
– current year	<b>122,077</b>	(55,612)
Total income tax expenses	<b>491,232</b>	9,518

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 (2016: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2016: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2016: 25%) of the estimated assessable profits and withholding tax on dividend declared by a PRC subsidiary.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit before income tax	<u>1,038,504</u>	<u>95,757</u>
Tax calculated at the applicable income tax rate of 25% (2016: 25%)	259,626	23,939
Effect of different tax rates of entities operating in other jurisdictions	10,309	8,212
Tax effect of expenses not deductible for tax purposes	107,536	219,514
Tax effect of revenue not subject to tax	(10,214)	(277,515)
Tax effect of gain on disposal of a subsidiary	–	(24,321)
Tax effect of tax losses not recognised	(41,857)	43,900
Tax effect of LAT	104,233	4,902
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	39,975	–
Under-provision in respect of prior years	3,650	2,897
Tax effect of other temporary differences not recognised	18,455	8,776
Others	<u>(481)</u>	<u>(786)</u>
Income tax expense	<u>491,232</u>	<u>9,518</u>

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments during the years.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect if deemed exercise of all dilutive potential ordinary shares at no consideration at the beginning of the periods.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share option (2015 Scheme) (note 37(a)) as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2017.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**14. EARNINGS PER SHARE (continued)**

The effect of the outstanding convertible bonds (note 33) was not included in the computation of diluted earnings per share for the years ended 31 December 2017 and 2016 as it was anti-dilutive.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit for the purposes of basic and diluted earnings per share	<u>550,460</u>	<u>92,918</u>
	Number of shares	
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,616,535	2,444,946
Effect of dilutive potential ordinary shares from share options (2005 Scheme) (note 37)	<u>5,247</u>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,621,782</u>	<u>2,444,946</u>
Basic	<b>RMB0.210</b>	RMB0.038
Diluted	<b>RMB0.210</b>	RMB0.038

**15. DIVIDENDS**

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Final dividend proposed after the end of the year of HK\$0.04 (approximately RMB0.03) per ordinary share (2016: Nil)	<u>78,543</u>	–

At the meeting held on 26 March 2018, the directors proposed a final dividend of HK\$0.04 (approximately RMB0.03) (2016: Nil) per ordinary share of the Company for the year ended 31 December 2017. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2017, but will be reflected as an appropriation for the year ending 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost</b>				
At 1 January 2016	273,757	12,436	9,522	295,715
Additions	–	1,112	771	1,883
Disposal of subsidiaries	–	(486)	(866)	(1,352)
Written off/disposals	–	(29)	–	(29)
Exchange differences	5,325	282	155	5,762
At 31 December 2016 and at 1 January 2017	279,082	13,315	9,582	301,979
Additions	–	6,759	2,514	9,273
Written off/disposals	–	(33)	–	(33)
Exchange differences	(5,504)	(292)	(251)	(6,047)
At 31 December 2017	273,578	19,749	11,845	305,172
<b>Accumulated depreciation</b>				
At 1 January 2016	22,309	5,788	4,893	32,990
Disposal of subsidiaries	–	(377)	(363)	(740)
Depreciation for the year	9,395	2,677	1,659	13,731
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(29)	–	(29)
Exchange differences	977	146	107	1,230
At 31 December 2016 and at 1 January 2017	36,088	8,205	6,296	50,589
Depreciation for the year	9,458	2,476	1,526	13,460
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(33)	–	(33)
Exchange differences	(1,403)	(197)	(148)	(1,748)
At 31 December 2017	47,550	10,451	7,674	65,675
<b>Net book value</b>				
At 31 December 2017	226,028	9,298	4,171	239,497
At 31 December 2016	242,994	5,110	3,286	251,390

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**17. INVESTMENT PROPERTIES**

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	588,370	570,058
Transfer from properties held for sale	125,649	–
Gain on valuations	353,351	–
Changes in fair value	35,701	10,051
Exchange differences	(8,671)	8,261
At end of year	<u>1,094,400</u>	<u>588,370</u>

Details of assessment of the fair value are set out in Note 24.

**18. GOODWILL**

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>		
At beginning of year	<u>68,664</u>	68,664
At end of year	<u>68,664</u>	68,664
<b>Accumulated impairment loss</b>		
At beginning of year	<u>55,110</u>	55,110
At end of year	<u>55,110</u>	55,110
<b>Net book value</b>		
At end of year	<u>13,554</u>	13,554

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

<b>Project</b>	<b>Attributable CGU</b>	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
Zhoutouzui Project	Property development ( <i>Note</i> )	<u>13,554</u>	13,554

*Note:* Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition in 2007. The carrying amount of property development costs in relation to the properties being under construction in Zhoutouzui Project is included in properties under development and properties held for sale (as disclosed in note 22 and 23).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 18. GOODWILL (continued)

#### Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
<b>2017</b>		
Property development	8.55%	48.75%
<b>2016</b>		
Property development	8.00%	51.20%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2017 (2016: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**19. AVAILABLE-FOR-SALE INVESTMENT**

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Investment funds, at fair value	10,000	10,000

The available-for-sale investment is denominated in RMB and there is no public market for the investments. The fair value is based on net asset value of the investment funds at the end of the reporting period. During the year ended 31 December 2017, no change in fair value was recognised in other comprehensive income and to be accumulated in the investment revaluation reserve.

**20. JOINT ARRANGEMENT**

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)\* (“**GZ Yucheng**”), a sino-foreign cooperative company with limited liabilities established in the PRC by Guangzhou Zhoutouzui Development Limited (“**GZ Zhoutouzui**”), a wholly-owned indirect subsidiary of the Company, and is accounted for as a joint operation in the Group’s financial statements. The Group’s accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Principal activity
PRC, 31 March 2003	US\$100,000,000	US\$100,000,000 (approximately RMB656,641,000)	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) (“**Port Authority**”), is entitled to 28% of the total gross floor area of the project upon completion of the development (being agreed to be the entire block of Tower A4 and certain residential units in Tower A5) and after then, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

In December 2017, Port Authority acknowledged the transfer of the rights of use of these property units in Tower A4 and delegated GZ Yucheng to sell the residential units in Tower A5.

\* *English name for identification purpose only*

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 21. CONSIDERATIONS RECEIVABLE

#### a. Disposal of Tianhe Project

	Gross consideration (Settled)/Paid		2017 RMB'000	2016 RMB'000
	RMB'000	RMB'000		
Gross sale consideration for the equity interest and net assets of subsidiary disposed	1,128,273	(1,128,273)	-	140,000
Less: Development costs and finance costs borne by the Group	(20,000)	20,000	-	-
Amortised cost, amount due within one year	1,108,273	(1,108,273)	-	140,000

The receivable relates to the sale consideration receivable from the purchaser for the disposal of the equity interest in a subsidiary which is engaged in the development of Tianhe Project. The amount of approximately RMB140,000,000 represents the final instalment that is unsecured and interest-free and was fully settled in January 2017.

#### b. Disposal of Yongzhou Project

	Gross consideration (Settled)/Paid		2017 RMB'000	2016 RMB'000
	RMB'000	RMB'000		
Gross sale consideration for the equity interest and net assets of Yongzhou Real Estate	277,223	(277,223)	-	137,401
Amortised cost, amount due within one year	277,223	(277,223)	-	137,401

The receivable relates to the final instalment receivable from the purchaser, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)\*, for the disposal of the 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)\* ("Yongzhou Real Estate"), the developer of Yongzhou Project, that is unsecured and interest-free. The final instalment was fully settled in January 2017.

\* English name for identification purpose only

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**22. PROPERTIES HELD FOR/UNDER DEVELOPMENT**

Properties held for/under development in the PRC are as follows:

	2017 RMB'000	2016 RMB'000
Land use rights ( <i>Note</i> )	1,734,123	2,205,151
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	170,403	649,883
Construction costs	1,770,152	4,214,393
Others	392,923	1,062,760
	<b>4,067,601</b>	<b>8,132,187</b>
Less: Accumulated write-down in value	<b>(27,151)</b>	–
	<b>4,040,450</b>	<b>8,132,187</b>
Representing:		
Properties held for development	488,072	161,160
Properties under development	3,552,378	7,971,027
	<b>4,040,450</b>	<b>8,132,187</b>

*Note:*

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2017 RMB'000	2016 RMB'000
At beginning of year	8,132,187	6,159,277
Additions		
– Capitalisation of depreciation of property, plant and equipment	127	139
– Capitalisation of finance costs	295,539	214,197
– Land and other development costs	2,500,590	2,298,695
	<b>2,796,256</b>	<b>2,513,031</b>
Completed properties transferred to properties held for sale	<b>(6,860,842)</b>	(540,121)
Write down of properties under development	<b>(27,151)</b>	–
At end of year	<b>4,040,450</b>	<b>8,132,187</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 23. PROPERTIES HELD FOR SALE

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Completed properties held for sale	3,984,040	177,228
Less: Transfer to investments properties	(125,649)	–
Less: Write-down of properties held for sale	(104,148)	–
	<u>3,754,243</u>	<u>177,228</u>

All completed properties held for sale as at 31 December 2017 were located in the PRC.

Note:

Write down of the carrying values of RMB104,148,000 in respect of properties held for sale in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for properties purchased by government for the resettlement of original occupants of the project site and residents in shanty dwellings nearby the project.

### 24. ANALYSIS OF PROPERTIES

(a) The analysis of the net book values of properties held for sale, leasehold land and building for self-use and fair value of investment properties is as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Land lease in the PRC and Hong Kong		
– Investment properties	1,094,400	588,370
– Leasehold land and building	226,028	242,994
– Properties held for sale	3,754,243	177,228
	<u>5,074,671</u>	<u>1,008,592</u>

(b) The Group's properties held for sale, investment properties and leasehold land and building were revalued as at 31 December 2017 and 31 December 2016. The valuations were carried out by Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd. and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 43 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2017, the rental income from investment properties amounted to RMB17,609,000 (2016: RMB16,514,000).

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**24. ANALYSIS OF PROPERTIES (continued)****(e) Fair value**

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
<b>2017</b>				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB417 sq.m./day for the base level.	The higher the capitalisation rate, the lower the fair value.  The higher the daily unit rent, the higher the fair value.
<b>2016</b>				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.  (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB416/sq.m./day for the base level.	The higher the capitalisation rate, the lower the fair value.  The higher the daily unit rent, the higher the fair value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 24. ANALYSIS OF PROPERTIES (continued)

#### (e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2017 and 31 December 2016 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

#### *Fair value measurements and valuation processes*

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance (level 3 recurring fair value)	456,000	448,000
Transfer from properties held for sale	125,649	–
Gains: included in other gains	366,351	8,000
Closing balance (level 3 recurring fair value)	948,000	456,000

### 25. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

As at 31 December 2017, the balance is unsecured, interest bearing at floating rate referenced to 110% of the 1-year lending rate as quoted by the People's Bank of China and repayable in 2019 (2016: repayable in 2017).

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**26. TRADE AND OTHER RECEIVABLES**

	<i>Notes</i>	<b>2017</b> <b>RMB'000</b>	2016 <b>RMB'000</b>
Current or less than 1 month		<b>1,370</b>	588
1 to 3 months		<b>380</b>	1,741
More than 3 months but less than 12 months		<b>542</b>	629
More than 1 year		<b>539</b>	387
Trade receivables from tenants and property occupants, net of impairment	<i>(a), (b)</i>	<b>2,831</b>	3,345
Refundable earnest money or payments made in project acquisitions		–	12,270
Receivable from district government for resettlement housing in a project		<b>52,272</b>	52,272
Sale proceeds kept by a monitoring governmental body		<b>195,910</b>	–
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		<b>38,689</b>	13,800
Refundable construction costs		<b>60,697</b>	57,730
Tender deposit in development project		<b>20,800</b>	20,800
Prepaid construction costs		<b>204,571</b>	240,032
Prepaid finance costs		<b>7,638</b>	9,750
Prepaid business taxes and surcharges		<b>315,918</b>	280,866
Maintenance funds paid on behalf of properties owners		<b>46,616</b>	45,943
Interest receivable on bank deposits/short-term investments		–	8,706
Other deposits, prepayments and other receivables	<i>(b)</i>	<b>254,850</b>	116,523
		<b>1,200,792</b>	862,037

*Notes:*

- (a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2017 RMB'000	2016 RMB'000
1 to 3 months past due	380	1,741
More than 3 months but less than 12 months past due	542	629
More than 1 year past due	539	387
	<u>1,461</u>	<u>2,757</u>

The Group's trade receivables which are past due but not impaired relate to rent due by a number of tenants of the Group's properties for whom there is no recent history of default.

The movements of impairment loss on trade receivables of the Group are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	1,570	1,403
Impairment loss recognised	–	167
At end of year	<u>1,570</u>	<u>1,570</u>

The balances of other classes within the trade and other receivables category are neither past due nor impaired. They mainly comprise receivable from district government for resettlement housing in a project, prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

### 27. PREPAYMENTS/DEPOSITS FOR PROPOSED PROJECTS

The Group has entered into a number of contractual arrangements relating to remodelling certain old districts and other development projects. The balances are progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions. These prepayments/deposits would be converted into properties under development upon the completion of the contracts.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**28. SHORT-TERM INVESTMENTS**

The Group invested in an insurance policy issued by a licensed insurance company on mainland China with investment value amounting to RMB100,000,000 as at 31 December 2017 which was used to secure a back-to-back letter of credit issued by a local bank in PRC to its overseas sub-branch. (2016: RMB NIL).

**29. RESTRICTED AND PLEDGED DEPOSITS**

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	<i>(a)</i>	456,511	375,382
– the payment of construction cost of development projects	<i>(b)</i>	856,520	611,616
– others		233	292
		<b>1,313,264</b>	<b>987,290</b>

Notes:

- (a) As at 31 December 2017, to secure a back-to-back letter of credit issued by a local bank in the PRC to an offshore bank to guarantee a subsidiary's repayment of the latter's money market loan facility HK\$500,000,000 (approximately RMB418,049,000), a bank deposit of RMB456,511,000 was placed in the local bank in the PRC.
- (b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

**30. CASH AND CASH EQUIVALENTS**

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Short-term bank deposits	569,111	437,473
Cash at bank and in hand	3,727,952	2,344,257
	<b>4,297,063</b>	<b>2,781,730</b>
Less: Restricted and pledged deposits ( <i>Note 29</i> )	<b>(1,313,264)</b>	<b>(987,290)</b>
	<b>2,983,799</b>	<b>1,794,440</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 31. TRADE AND OTHER PAYABLES

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current or less than 1 month	–	–
1 to 3 months	628	1,012
More than 3 months but less than 12 months	736	5
More than 12 months	4	2
Total trade payables	1,368	1,019
Construction costs payable	1,081,148	875,480
Tender receivable from the suppliers	36,387	49,287
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	27,140	16,745
Receipts in advance from government on a project clearance	–	68,297
Resettlement payable	15,726	26,250
Accrued business taxes and surcharges	47,696	62,840
Other accrued expenses and other payables	164,881	90,607
	<b>1,374,346</b>	<b>1,190,525</b>

### 32. FINANCIAL GUARANTEE CONTRACT

- (a) During the year ended 31 December 2017 and 31 December 2016, the Company provided corporate guarantees to secure for the repayment of a third party and subsidiaries' borrowings. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2017 and 31 December 2016.
- (b) As at 31 December 2017, the Group provides guarantees to the extent of approximately RMB4,888,199,000 (2016: RMB3,406,943,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceeds recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES**

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>Bank and other borrowings</b>			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	<i>(a)</i>	1,710,527	2,033,634
(ii) money market loans	<i>(b)</i>	506,842	375,905
Other secured borrowings:			
(i) trust loan	<i>(c)(i)(ii)</i>	616,008	–
(ii) secured loans	<i>(d)(i)(ii)</i>	423,164	486,209
(iii) secured bonds	<i>(d)</i>	–	35,455
Unsecured borrowings:			
(i) unsecured bonds	<i>(e)</i>	1,018,754	524,860
		<b>4,275,294</b>	<b>3,456,063</b>
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		1,171,198	1,067,634
More than one year, but not exceeding two years		1,686,658	685,891
More than two years, but not exceeding five years		408,057	1,153,908
After five years		1,009,381	548,630
		<b>4,275,294</b>	<b>3,456,063</b>
Amounts due within one year included in current liabilities		<b>(1,171,198)</b>	<b>(1,067,634)</b>
		<b>3,104,096</b>	<b>2,388,429</b>
<b>Derivative financial asset</b>			
– Company Redemption Rights on Unsecured Bonds	<i>(e)</i>	<b>(46,144)</b>	<b>(9,022)</b>
<b>Derivative financial liabilities</b>			
– Exchange Rights and Extension Rights on Secured Bonds	<i>(d)</i>	–	11,177
– Holder Redemption Rights on Unsecured Bonds	<i>(e)</i>	12,333	2,182
		<b>12,333</b>	<b>13,359</b>
Amounts due within one year included in current liabilities		–	(11,177)
		<b>12,333</b>	<b>2,182</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes:

- (a) At 31 December 2017, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB3,387,207,000 (2016: RMB2,785,621,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 8.5% per annum (2016: 2.50% to 6.50% per annum) as at 31 December 2017. In addition to mortgages, the Company also provides corporate guarantees to secure for the repayment of a term loans and a revolving loan with carrying values totaling approximately RMB153,018,000 (2016: RMB149,310,000), a term loans and construction loan of approximately RMB1,278,808,000 (2016: RMB1,223,400,000) are secured by the personal guarantee provided by Mr. YU Pan and/or his spouse.

In June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US\$60,000,000 (approximately RMB392,052,000) which is secured by personal guarantee provided by Mr. YU Pan and a legal charge over 1,587,168,407 shares of the Company beneficially owned by Mr. YU Pan. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.81%. The loan was fully repaid on 8 September 2017 prior to its maturity.

Other than a term loan of approximately RMB61,180,000 (2016: RMB68,805,000) which is repayable by monthly instalments until 2033 and another term loan of RMB246,803,000 (2016: RMB269,076,000) which is payable by monthly instalments until 2026, other bank borrowings in an aggregate amount of approximately RMB1,402,544,000 (2016: RMB1,974,948,000) are repayable in the years between 2018 and 2019.

As at 31 December 2017, the carrying values of the aforesaid bank borrowings are RMB1,710,527,000 (2016: RMB2,033,634,000).

- (b) As at 31 December 2017, the money market loans in aggregate of approximately RMB506,842,000 (2016: RMB375,905,000) extended by two banks in China were secured by bank deposits of RMB456,511,000 and carry fixed rate at 1.95% and 2.33% per annum (2016: fixed rate at 1.9% per annum) and short-term investment in an insurance policy of RMB100,000,000 that carries at 6-month Hibor plus 0.4% per annum, at 1.36% per annum.
- (c) (i) As at 31 December 2017, some residential units developed in Zhoutouzui project with aggregate carrying amount of approximately RMB273,000,000 are mortgaged to a financial institution to secure a loan of principal amount RMB500,000,000 granted to a subsidiary by a trust company (the "Trust Loan A"). The Trust Loan A carries a fixed rate interest at 7% per annum and has a term of three years and is repayable on 29 August 2020.
- (ii) As at 31 December 2017, trust loan of principal amount RMB114,000,000 (the "Trust Loan B") was provided by 四川信託有限公司 (Sichuan Trust Company Limited) to 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited) ("Xuzhou Yucheng"), which is secured by the equity interest in Xuzhou Yucheng, the project company of Xuzhou Times City Project and some residential units developed in Nanning Skyfame Garden Project with aggregate carrying amount of approximately RMB560,056,000. The Trust Loan B carries interest at rate of 11.0% per annum and has a term of one year, extendable for a maximum of two years.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES  
(continued)***Notes: (continued)*

- (d) (i) A secured loan due 2019 in the principal amount of HK\$500,000,000 (RMB417,950,000) (the "Secured Loan A") was drawn down on 25 July 2017. The Secured Loan A was amortised at the effective interest method by applying the effective interest rate of 11.39% per annum. The Secured Loan has a term of two years.

Pursuant to the share charge dated 27 July 2017, Fortunate Start Investments Limited, a wholly-owned subsidiary of the Company, holding 100% equity interest in Guangzhou Zhoutouzui Development Limited ("GZ Zhoutouzui"), the project company of Zhoutouzui project has charged all its rights, title and interest in GZ Zhoutouzui in favour of the lender to secure the repayment of the Secured Loan.

The Secured Loan is also secured by legal charge over 321,860,000 shares of the Company beneficially owned by Mr. Yu Pan and personal guarantee provided by Mr. Yu Pan and his spouse.

- (ii) The term loan of HK\$560,000,000 (RMB468,104,000) (the "Loan") drawn down and convertible bonds issued by the Company in principal amount of HK\$40,000,000 (RMB33,436,000) (the "Convertible Bonds") in 2015 had been repaid and redeemed in full in 2017. The Loan bears interests at the rate of 10% per annum.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying effective interest rates of 16.13% and 16.10% per annum.

The movements of the Loan and Convertible Bonds are as follows:

	Loan	Convertible Bonds	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2016 and 1 January 2017	486,209	35,455	521,664
Accrued interest expense	23,045	2,953	25,998
Loss on . repayment	8,543	–	8,543
Early repayment on 25 April 2017	(497,168)	–	(497,168)
Repayment on 22 July 2017	–	(34,716)	(34,716)
Interest paid	(16,998)	(2,643)	(19,641)
Exchange differences	(3,631)	(1,049)	(4,680)
At 31 December 2017	–	–	–

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

- (e) As at 31 December 2017, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK\$290,000,000 (RMB242,411,000) due on 12 September 2024 (the "2024 Bonds"), HK\$80,000,000 (RMB66,872,000) due on 12 September 2025 (the "2025 Bonds"), HK\$100,000,000 (RMB83,590,000) due on 12 September 2026 (the "2026 Bonds"), HK\$10,000,000 (RMB8,359,000) due on 15 May 2027 (the "2027 Bonds"), HK\$570,000,000 (RMB476,463,000) due on 14 November 2031 (the "2031 Bonds"), HK\$960,000,000 (RMB802,464,000) due on 14 November 2032 (the "2032 Bonds"), HK\$1,300,000,000 (RMB1,086,670,000) due on 14 November 2033 (the "2033 Bonds"), and HK\$1,220,000,000 (RMB1,019,798,000) due on 16 June 2034 (the "2034 Bonds"). The 2024 Bonds, 2025 Bonds, 2026 Bonds and 2027 Bonds carry coupon interests at 7.5%, whilst the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds carry coupon interests at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds), 16 June (for the 2027 Bonds), 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) and 16 June (for the 2034 Bonds) until maturity. The bonds were amortised at the effective interest method by applying the effective interest rates ranging from 10.92% to 13.14% per annum.

All Bondholders, depending on the relevant bonds, have the right to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period. The Company has the right to redeem the 2031 Bonds, 2032 Bonds and 2033 Bonds on specific dates or periods.

In 2016, the Company issued unsecured bonds in an aggregate principal amount of HK\$100,000,000 (RMB83,590,000) due on 4 July 2019 (the "2019 Bonds"). The 2019 Bonds carry interest at the actual rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019. The 2019 Bonds were amortised at the effective interest method by applying the effective interest rate of 11.46% per annum.

During the year, the Company has issued the unsecured bonds in an aggregate principal amount of HK\$200,000,000 (approximately RMB167,180,000) ("2019/2020 Bonds"). The 2019/2020 Bonds carry interests at the actual rate of 5% per annum, payable quarterly in arrears, and will mature in 2019 and 2020. The 2019/2020 Bonds were amortised at the effective interest method by applying the effective interest rate from 13.69 to 14.07% per annum.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES  
(continued)

Notes: (continued)

(e) (continued)

On 15 December 2017, the Company entered into an agreement to appoint a financial institution as an agent to place bonds issued by the Company in an aggregate principal amount up to HK\$300 million. The bonds bear a term of three years at an annualised amortization rate of 12.11%. Up to 31 December 2017, no bonds have been issued pursuant to the placing agreement.

The movements of the bonds are as follows:

	2019/2020											Total
	2016 Bonds	2019 Bonds	Bonds	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Nominal value	-	100,000	200,000	290,000	80,000	100,000	10,000	570,000	960,000	1,300,000	1,220,000	4,830,000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nominal value	-	83,590	167,180	242,411	66,872	83,590	8,359	476,463	802,464	1,086,670	1,019,798	4,037,397
Liability component of carrying amount												
At 31 December 2015 and 1 January 2016	83,092	-	-	86,157	-	-	-	79,462	2,474	-	-	251,185
Issue of the bonds, net of transaction costs	-	76,597	33,819	-	64,374	25,294	-	-	760,682	211,869	-	1,172,635
Repayment	(83,982)	-	-	-	-	-	-	-	-	-	-	(83,982)
Discounts and interest paid	(3,152)	(2,170)	-	(248)	(40,753)	(16,856)	-	(498)	(635,189)	(179,952)	-	(878,818)
Accrued interest expense	3,844	5,495	440	11,336	1,016	3	-	9,988	5,432	10	-	37,564
Exchange differences	198	3,618	862	6,306	1,549	215	-	5,793	7,333	402	-	26,276
At 31 December 2016 and 1 January 2017	-	83,540	35,121	103,551	26,186	8,656	-	94,745	140,732	32,329	-	524,860
Reclassified	-	6,970	3,399	-	-	-	-	-	-	-	-	10,369
Issue of the bonds, net of transaction costs	-	-	106,144	-	-	59,423	8,718	-	-	981,602	1,190,198	2,346,085
Repayment	-	-	-	-	-	-	-	-	-	-	-	-
Discounts and interest paid	-	(8,749)	(2,361)	(246)	(68)	(38,568)	(5,823)	(485)	(817)	(825,851)	(1,005,560)	(1,888,528)
Accrued interest expense	-	8,458	8,311	12,819	3,141	2,656	86	11,206	16,780	15,040	3,136	81,633
Exchange differences	-	(5,815)	(6,385)	(7,200)	(1,818)	(1,827)	(109)	(6,566)	(9,757)	(11,414)	(4,774)	(55,665)
At 31 December 2017	-	84,404	144,229	108,924	27,441	30,340	2,872	98,900	146,938	191,706	183,000	1,018,754

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 34. DEFERRED TAX ASSETS/LIABILITIES

Movements of the deferred tax assets/liabilities are as follows:

	Land appreciation tax RMB'000	Tax losses RMB'000	Withholding tax RMB'000	Revaluation of properties			Total RMB'000
				Leasehold land and building RMB'000	Investment properties RMB'000	Properties under development RMB'000	
At 1 January 2016	-	-	-	6,296	85,877	76,608	168,781
Charged to profit or loss	(20,727)	(36,626)	-	(259)	2,000	-	(55,612)
At 31 December 2016 and at 1 January 2017	(20,727)	(36,626)	-	6,037	87,877	76,608	113,169
(Credit)/charged to profit or loss	2,585	36,626	39,975	(259)	91,588	(48,438)	122,077
At 31 December 2017	(18,142)	-	39,975	5,778	179,465	28,170	235,246

As at 31 December 2017, the Group have estimated unutilised tax losses of approximately RMB122,577,000 (2016: RMB321,486,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB77,048,000 (2016: RMB140,778,000) which may be carried forward indefinitely, and the remaining balance of RMB45,529,000 (2016: RMB180,708,000) will expire in five years.

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. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries as the Group considered the temporary differences will reverse in the foreseeable future upon declaration of dividends of subsidiaries and associates.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**35. SHARE CAPITAL****(a) Authorised and issued share capital**

		Number of shares	Nominal value	Equivalent nominal value
		Ordinary share capital of HK\$0.01 each '000	Ordinary share capital of HK\$0.01 each HK\$'000	of ordinary share capital of HK\$0.01 each RMB'000
	Notes			
<b>Authorised:</b>				
At 31 December 2016 and 2017		30,000,000	300,000	311,316
<b>Issued and fully paid:</b>				
<u>Ordinary shares of HK\$0.01 each</u>				
At 1 January 2016		2,216,531	22,165	21,068
Issue and allotment of placing shares	(i)	400,000	4,000	3,388
At 31 December 2016 and 1 January 2017		2,616,531	26,165	24,456
Shares issued under share option scheme	(ii)	1,566	16	13
At 31 December 2017		2,618,097	26,181	24,469

**Note:**

- (i) Pursuant to a placing agreement entered by the Company with a placing agent on 17 May 2016 in relation to the placing of 400,000,000 shares of the Company at a price of HK\$0.48 per share (the "Placing"), the Placing was completed on 6 June 2016 and 400,000,000 shares were issued and allotted to seven places, raising proceeds, net of direct expenses, totaling approximately HK\$187,500,000 (RMB158,793,000).
- (ii) During the year ended 31 December 2017, 1,556,000 options with exercise price of HK\$1.082 were exercised to subscribe for 1,566,000 ordinary shares in the Company at a consideration of HK\$1,684,000 (equivalent to approximately RMB1,448,000) of which RMB13,000 was credited to share capital and the balance of RMB1,435,000 was credited to share premium. RMB727,000 transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 4.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 35. SHARE CAPITAL (continued)

#### (b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

The gearing ratio as at the end of the reporting period is calculated based on the following:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total debt	4,287,627	3,469,422
Less: restricted bank deposits backing up the money market loans	(456,511)	(375,382)
Less: cash and cash equivalents	(2,983,799)	(1,794,440)
Net debt	847,317	1,299,600
Equity attributable to owners	2,326,029	1,765,109
Capital plus net debt	3,173,346	3,064,709
Gearing ratio (Net debt/Capital plus net debt)	26.7%	42.4%

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**36. RESERVES**

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,482,872
Issue of shares: Share placing	159,217	-	-	-	-	-	-	-	-	159,217
Share issue expenses	(3,812)	-	-	-	-	-	-	-	-	(3,812)
Recognition of equity-settled share-based payment expenses	-	-	9,596	-	-	-	-	-	-	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits	-	-	(994)	-	-	-	-	-	994	-
Exchange differences arising on foreign operations	-	-	-	-	-	-	(138)	-	-	(138)
Transfer among reserves	-	-	-	(34,499)	-	-	-	-	34,499	-
Profit for the year	-	-	-	-	-	-	-	-	92,918	92,918
As at 31 December 2016 and at 1 January 2017	1,662,587	16,116	19,178	-	(293,095)	6,471	(1,441)	743	330,094	1,740,653
Issue of shares: Exercise of share options	2,162	-	(727)	-	-	-	-	-	-	1,435
Recognition of equity-settled share-based payment expenses	-	-	6,185	-	-	-	-	-	-	6,185
Exchange differences arising on foreign operations	-	-	-	-	-	-	2,827	-	-	2,827
Profit for the year	-	-	-	-	-	-	-	-	550,460	550,460
At 31 December 2017	1,664,749	16,116	24,636	-	(293,095)	6,471	1,386	743	880,554	2,301,560

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 36. RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation.  Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(p).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(n).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

#### (a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "2005 Scheme").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the offer date (the "Individual Limited"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (a) 2005 Scheme (continued)

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "Board") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

#### (b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "2015 Scheme").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "Invested Entity"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (b) 2015 Scheme (continued)

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.





**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)**

The estimated fair value of each option granted on 11 August 2011 and 26 June 2015 were HK\$0.42 and HK\$0.58 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme and the 2015 Scheme:

	<b>2005 Scheme</b>
Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK\$0.67
Exercise price per share	HK\$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	NIL
	<b>2015 Scheme</b>
Option pricing model	Binomial Model
Date of grant	26 June 2015
Closing share price at the date of grant	HK\$1.02
Exercise price per share	HK\$1.082
Annual risk-free rate	1.81%
Expected volatility	56%
Life of the option	10 years
Expected dividend yield	NIL

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	2015 Scheme Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

Option Exercise Period	2015 Scheme Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB6,185,000 (2016: RMB9,596,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2017 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK\$0.9928 to HK\$1.0820. During the year, 1,566,000 share options were exercised, the weighted average share price at the date of exercise of option is HK\$1.0820. The weighted average fair value of each option granted during the year was HK\$0.53 (2016: HK\$0.53).

The number of exercisable options as at 31 December 2017 is 29,138,659 (2016: 21,295,259) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2017 is 5.96 years (2016: 8.20 years).

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****(a) Reconciliation of profit before income tax to net cash from operating activities**

	Note	2017 RMB'000	2016 RMB'000
<b>Profit before income tax</b>		<b>1,038,504</b>	95,757
<i>Adjustments for:</i>			
Finance costs		33,088	3,051
Finance income		(36,483)	(32,771)
Equity-settled share-based payment expenses		6,185	9,596
Depreciation of property, plant and equipment		13,333	13,592
Amortisation of leasehold land		3,407	3,407
Exchange loss, net		(130,873)	107,090
Fair value changes in financial derivative asset/ liabilities		(13,080)	(11,121)
Loss on early repayment of term loan		23,418	–
Impairment loss on trade and other receivables		–	167
Gain on disposal of subsidiaries	38(c)	–	(97,285)
Fair value changes in investment properties		(35,701)	(10,051)
Gain on properties valuation		(353,351)	–
Write-down of properties under development/ properties held for sale		131,299	–
<b>Operating profit before working capital changes</b>		<b>679,746</b>	81,432
Decrease in properties under Tianhe Project		–	786,168
Decrease/(increase) in properties under development		4,619,167	(2,392,906)
(Increase)/decrease in properties held for sale		(3,806,812)	359,460
Increase in trade and other receivables		(1,116,372)	(981,448)
Decrease/(increase) in consideration receivables from disposal of Tianhe Project and Yongzhou Project		277,401	(1,094,602)
(Decrease)/increase in trade and other payables		(73,099)	112,108
Increase in properties pre-sale deposits		531,079	3,595,842
<b>Cash generated from operations</b>		<b>1,111,110</b>	466,054
Income tax paid		(138,596)	(87,671)
<b>Net cash from operating activities</b>		<b>972,514</b>	378,383

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	<b>Bank loans and other borrowings</b>	<b>Derivative financial liabilities</b>
	<i>(note 33)</i>	<i>(note 33)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2017	3,456,063	13,359
Changes from cash flows:		
Addition	5,400,050	30,306
Repayment/Settlement	(2,587,677)	(16,197)
Interest paid	(1,935,918)	–
Other borrowing costs paid	(101,558)	–
Total changes from financing cash flows:	<u>774,897</u>	<u>14,109</u>
Exchange adjustments:	(146,075)	(816)
Changes in fair value:	–	(14,319)
Other changes:		
Interest expenses	166,991	–
Loss on early repayment of term loans	23,418	–
Total other changes	<u>190,409</u>	<u>–</u>
At 31 December 2017	4,275,294	12,333

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)****(c) Disposal of a subsidiary***Disposal of 70% interest in the Yongzhou Project*

On 27 September 2016, a subsidiary of the Company, 廣州譽浚諮詢服務有限公司 (GZ Yu Jun Consulting Service Company Limited)\*, entered into an agreement with 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)\*, pursuant to which GZ Yu Jun agreed to dispose of its 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)\* ("YZ Tianyu"), which is engaged in the development of Yongzhou Project, and YZ Tianyu to repay the shareholder loan owned to GZ Yu Jun by YZ Tianyu. The 70% equity interest was transferred and the shareholder loan repaid at an aggregate consideration of approximately RMB271,510,000, net of direct expenses, on 30 November 2016, resulting in a gain of approximately RMB97,285,000 which was charged in the consolidated profit or loss for the year.

<b>Consideration received:</b>	<b>RMB'000</b>
Cash received, net of direct expenses	271,510
	<b>30 November 2016</b>
<b>Analysis of assets and liabilities over which control was lost:</b>	<b>RMB'000</b>
Property, plant and equipment	612
Properties held for sale	181,283
Trade and other receivables	11,630
Cash and cash equivalents	13,344
Trade and other payables	(26,680)
Prepaid tax/Income tax payable	(11,357)
Properties pre-sale deposits	(16,021)
Advanced payments received from customers	(915)
Net assets disposed of	151,896
<b>Gain on disposal of YZ Tianyu:</b>	<b>RMB'000</b>
Consideration received	271,510
Net assets disposed of	(151,896)
Non-controlling interests	(22,329)
Gain on disposal of YZ Tianyu	97,285
<b>Net cash inflow arising from the disposal:</b>	<b>RMB'000</b>
Cash received	139,822
Direct expenses incurred	(5,713)
Direct expenses accrued	4,394
Cash received, net of direct expenses	138,503
Bank balances and cash disposed of	(13,344)
	125,159

\* English name for identification purpose only

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 39. EMPLOYEE RETIREMENT BENEFITS

#### Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

### 40. OPERATING LEASE COMMITMENTS

#### Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within one year	<u>2,062</u>	<u>390</u>

#### Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within one year	12,806	12,333
Later than one year but within five years	28,409	33,950
Later than five years	–	13,667
	<u>41,215</u>	<u>59,950</u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**41. COMMITMENTS**

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	<b>2,318,950</b>	2,246,094

**42. CONTINGENT LIABILITIES**

The Group had no other material contingent liabilities as at 31 December 2017 (2016: Nil).

**43. PLEDGE OF ASSETS**

As at 31 December 2017, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold land and building	190,409	205,778
Investment properties	615,400	588,370
Properties under development	2,847,096	1,991,473
Properties held for sale	567,658	–
Short-term investments	100,000	–
Pledged deposits	456,511	375,382
	<b>4,777,074</b>	3,161,003

In addition, at the 31 December 2017, shares in certain subsidiaries of the Company were charged to secure the certain loan facilities were secured by corporate guarantees provided by the Company, personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d).

**44. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

**(a) Material transactions with related parties**

Related party relationship	Type of transaction	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
		<b>Transaction amount</b>	
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received from office leasing	111	111
	(ii) Management fee paid to a related company	(200)	(200)
	(iii) Consideration received from disposal of Yongzhou Project	137,401	139,822

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 44. RELATED PARTY TRANSACTION (continued)

#### (b) Personal guarantee by the Chairman

As at 31 December 2017, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries as disclosed in notes 33(a) and 33(d)(i).

#### (c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2017 RMB'000	2016 RMB'000
Short-term benefits	28,735	20,908
Other long-term benefits	566	549
Equity-settled share-based payment expenses	3,355	5,249
	<u>32,656</u>	<u>26,706</u>

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

### 45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)****(a) Foreign currency risk**

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Derivative financial asset		
– HK\$	46,144	9,022
Cash and cash equivalents		
– US\$	69,072	1,339
– HK\$	136,069	15,706
Bank and other borrowings		
– US\$	–	(391,849)
– HK\$	(2,102,053)	(1,571,738)
Derivative financial liabilities		
– HK\$	(12,333)	(13,359)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US\$ and HK\$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>
If United States dollar weakens against Renminbi	4%	(2,763)	4%	15,620
If United States dollar strengthens against Renminbi	4%	2,763	4%	(15,620)
If Hong Kong dollar weakens against Renminbi	4%	77,287	4%	62,415
If Hong Kong dollar strengthens against Renminbi	4%	(77,287)	4%	(62,415)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

#### (b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2017		2016	
	Effective interest rate (% per annum)	Amount RMB'000	Effective interest rate (% per annum)	Amount RMB'000
<b>The Group</b>				
<b>Financial assets</b>				
Fixed rate receivables				
– Available-for-sale investment	8.00%	10,000	8.00%	10,000
– Short term investments	3.30%	100,000	–	–
– Restricted and pledged deposits	1.95% to 2.33%	456,511	1.90%	375,382
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	4.79%	52,900	4.79%	52,900
– Restricted and pledged deposits	0.35%	856,753	0.35%	611,908
– Other cash at bank	0.01% to 0.35%	2,983,799	0.01% to 0.35%	1,827,759
<b>Financial liabilities</b>				
Fixed rate borrowings				
– Other borrowings	7.00% to 11.00%	2,057,926	10.75% to 16.13%	1,438,373
Floating rate borrowings				
– Bank borrowings	2.10% to 8.50%	2,217,368	1.90% to 8.50%	2,017,690

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

**NOTES TO THE FINANCIAL STATEMENTS**

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**45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)****(b) Interest rate risk (continued)**

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax RMB'000	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax RMB'000
<b>Floating rate financial assets</b>				
Increase in floating rate	100	38,814	100	24,926
Decrease in floating rate	(100)	(38,814)	(100)	(24,926)
<b>Floating rate financial liabilities</b>				
Increase in floating rate	500	(110,868)	500	(100,885)
Decrease in floating rate	(500)	110,868	(500)	100,885

**(c) Credit risk**

The Group's exposure to credit risk arises from the considerations receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group. All considerations receivable for the disposal of interests in Tianhe Project and Yongzhou Project were fully settled in due course pursuant to the disposal agreements.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

#### (d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow						Total	Carrying amount
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>2017</b>								
Trade and other payables	9,105	139,123	1,226,118	-	-	-	1,374,346	1,374,346
Bank and other borrowings	153,018	161,719	1,086,993	1,911,904	524,237	3,940,451	7,778,322	4,275,294
Guarantee for property mortgage	4,888,199	-	-	-	-	-	4,888,199	-
	<b>5,050,322</b>	<b>300,842</b>	<b>2,313,111</b>	<b>1,911,904</b>	<b>524,237</b>	<b>3,940,451</b>	<b>14,040,867</b>	<b>5,649,640</b>
<b>2016</b>								
Trade and other payables	3,578	236,218	950,729	-	-	-	1,190,525	1,190,525
Bank and other borrowings	149,310	416,694	695,074	839,102	1,255,881	2,116,422	5,472,483	3,456,063
Guarantee for property mortgage	3,406,943	-	-	-	-	-	3,406,943	-
	<b>3,559,831</b>	<b>652,912</b>	<b>1,645,803</b>	<b>839,102</b>	<b>1,255,881</b>	<b>2,116,422</b>	<b>10,069,951</b>	<b>4,646,588</b>

Note: As at 31 December 2017, the bank borrowings of the Group of approximately RMB506,842,000 (2016: RMB375,905,000), were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB456,511,000 (2016: RMB375,382,000) and short-term investments of HK\$100,000,000 maturing at the same time of the bank borrowing.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE**

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
<b>Loans and receivable</b>				
– Trade and other receivables	1,200,792	(Note)	862,037	(Note)
– Deposits for proposed projects	1,385,269	(Note)	614,093	(Note)
– Available-for-sale investment	10,000	(Note)	10,000	(Note)
– Short-term investments	100,000	(Note)	–	–
– Loan to a non-controlling shareholder of a subsidiary	52,900	(Note)	52,900	(Note)
– Restricted and pledged deposits	1,313,264	(Note)	987,290	(Note)
– Cash and cash equivalents	2,983,799	(Note)	1,794,440	(Note)
<b>Fair value through profit or loss</b>				
– Derivative financial assets	46,144	46,144	9,022	9,022
<b>Financial liabilities</b>				
<b>Financial liabilities at amortised costs</b>				
– Trade and other payables	1,374,346	(Note)	1,190,525	(Note)
– Bank and other borrowings:				
the Secured Loans	423,164	(Note)	486,209	500,917
the Secured Bonds	–	–	35,455	36,355
the Unsecured Bonds	1,018,754	914,527	524,860	524,311
bank and other borrowings	2,833,376	(Note)	2,409,539	(Note)
<b>Fair value through profit or loss</b>				
– Derivative financial liabilities	12,333	12,333	13,359	13,359

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

*Financial instruments not measured at fair value*

Financial instruments not measured at fair value include trade and other receivables, deposits for proposed projects, available-for-sale investment, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

*Financial instruments measured at fair value*

The fair value of derivative financial assets/liabilities, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2017	2016
	Level 3	Level 3
	RMB'000	RMB'000
<b>Financial asset at fair value through profit or loss</b>		
– Derivative	46,144	9,022
<b>Financial liabilities at fair value through profit or loss</b>		
– Derivatives	12,333	13,359

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)***Note: (continued)*

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset RMB'000	Financial liabilities RMB'000	2017 RMB'000	2016 RMB'000
At 1 January	(9,022)	13,359	4,337	12,536
Issue of the Secured/Unsecured Bonds	(41,289)	14,109	(27,180)	2,000
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,239	(14,319)	(13,080)	(11,121)
– Exchange differences	2,928	(816)	2,112	922
At 31 December	(46,144)	12,333	(33,811)	4,337

During the year ended 31 December 2017, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

*Liabilities for which fair value are disclosed*

			2017 Level 3 RMB'000	2016 Level 3 RMB'000
<b>Bank and other borrowings</b>				
– the Secured Loans	The hull-white trinomial tree	Discount rate and short-term volatility parameter	–	500,917
– the Secured Bonds	Discounted cash flow	Discount rate and bond yield	–	36,355
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	914,527	524,311

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/ liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs (Note)	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

*Note:*

If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities/assets (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB28,631,000 and RMB29,998,000 respectively as at 31 December 2017 (2016: RMB15,765,000 and RMB17,764,000).



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
<b>Non-current assets</b>			
Interests in subsidiaries		2,962,429	3,090,174
Derivative financial asset		46,144	9,022
		<u>3,008,573</u>	<u>3,099,196</u>
<b>Current assets</b>			
Amounts due from subsidiaries		24,513	24,090
Prepayments and other receivables		21,492	14,478
Cash and cash equivalents		149,350	4,697
		<u>195,355</u>	<u>43,265</u>
<b>Current liabilities</b>			
Accruals and other payables		2,287	1,933
Amounts due to subsidiaries		–	302,743
Bank and other borrowings – current portion		506,842	521,664
Derivative financial liabilities – current portion		–	11,177
Income tax payable		55,830	55,830
		<u>564,959</u>	<u>893,347</u>
<b>Net current liabilities</b>		<u>(369,604)</u>	<u>(850,082)</u>
<b>Total assets less current liabilities</b>		<u>2,638,969</u>	<u>2,249,114</u>
<b>Non-current liabilities</b>			
Other borrowings – non-current portion		1,441,918	916,709
Derivative financial liabilities – non-current portion		12,333	2,182
		<u>1,454,251</u>	<u>918,891</u>
<b>Net assets</b>		<u>1,184,718</u>	<u>1,330,223</u>
<b>Capital and reserves</b>			
Share capital		24,469	24,456
Reserves	48	1,160,249	1,305,767
<b>Total equity</b>		<u>1,184,718</u>	<u>1,330,223</u>

On behalf of the Board

Yu Pan  
DirectorWen Xiaobing  
Director

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 48. RESERVES OF THE COMPANY

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	1,507,182	16,116	10,576	(385,807)	1,148,067
Issue of shares: Share placing	159,217	-	-	-	159,217
Share issue expenses	(3,812)	-	-	-	(3,812)
Recognition of equity-settled share-based payment expenses	-	-	9,596	-	9,596
Reallocation of lapsed options from share- based payment reserve to accumulated losses	-	-	(994)	994	-
Loss for the year	-	-	-	(7,301)	(7,301)
As at 31 December 2016 and at 1 January 2017	1,662,587	16,116	19,178	(392,114)	1,305,767
Issue of shares: Exercise of share options	2,162	-	(727)	-	1,435
Recognition of equity-settled share-based payment expenses	-	-	6,185	-	6,185
Loss for the year	-	-	-	(153,138)	(153,138)
At 31 December 2017	1,664,749	16,116	24,636	(545,252)	1,160,249

### 49. PRINCIPAL SUBSIDIARIES

	Notes	2017 RMB'000	2016 RMB'000
<b>Interests in subsidiaries – non-current portion</b>			
Unlisted investments, at cost	(a), (c)	2,962,429	3,090,174
<b>Amounts due from subsidiaries – current portion</b>			
Amounts due from subsidiaries	(b)	42,499	42,076
Less: Provision for impairment loss		(17,986)	(17,986)
		24,513	24,090
		2,986,942	3,114,264
Amounts due to subsidiaries	(b)	-	(302,743)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**49. PRINCIPAL SUBSIDIARIES (continued)**

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2017 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
廣州市創家譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("Chuanghaoyu")	PRC	United States dollar ("US\$") 6,000,000	–	100%	Investment holding and property leasing
廣州市豪俊置業有限公司 (Guangzhou Haojun Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	–	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("GZ Yu Jun")	PRC	HK\$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK\$100	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("Nanning Jucheng")	PRC	RMB50,000,000	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Skyfame Management Services Limited	Hong Kong	HK\$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK\$1	–	100%	Property investment
Winprofit Investments Limited	BVI	US\$100	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* ("Xuzhou Yucheng")	PRC	RMB138,000,000	–	90%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* ("Xuzhou Jianyu")	PRC	RMB311,500,000	–	92%	Property development in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

\* English name is for identification purpose only.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**49. PRINCIPAL SUBSIDIARIES (continued)***Notes: (continued)*

- (c) Summarised financial information on subsidiaries with material non-controlling interests  
Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

**Summarised statement of financial position**

	Nanning Jucheng		YZ Tianyu Tourism		Xuzhou Yucheng		Xuzhou Jianyu	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current</b>								
Assets	3,995,632	4,572,035	98,396	98,811	1,034,548	181,456	722,068	-
Liabilities	(4,058,387)	(4,617,069)	(350)	(3)	(615,392)	-	(411,474)	-
	(62,755)	(45,034)	98,046	98,808	419,156	181,456	310,594	-
<b>Non-current</b>								
Assets	610	1,061	4	4	439	-	-	-
Liabilities	-	-	-	-	(291,390)	(43,506)	-	-
	610	1,061	4	4	(290,951)	(43,506)	-	-
<b>Net assets/(liabilities)</b>	<b>(62,145)</b>	<b>(43,973)</b>	<b>98,050</b>	<b>98,812</b>	<b>128,205</b>	<b>137,950</b>	<b>310,594</b>	<b>-</b>
<b>Accumulated non-controlling interests</b>	<b>(12,429)</b>	<b>(8,794)</b>	<b>29,414</b>	<b>29,643</b>	<b>12,821</b>	<b>13,795</b>	<b>24,816</b>	<b>-</b>

**Summarised statement of profit or loss and other comprehensive income**

	Nanning Jucheng		YZ Tianyu Tourism		Xuzhou Yucheng		Xuzhou Jianyu	
	For the year ended		For the year ended		For the year ended		For the year ended	
	31 December		31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	766,222	276,265	-	-	-	-	-	-
Loss before income tax	(16,606)	(44,313)	(4)	(5)	(24,350)	(47)	(906)	-
Income tax credit/(expense)	(12,305)	-	-	-	1,922	-	-	-
Loss after tax and total comprehensive income	(28,911)	(44,313)	(4)	(5)	(22,428)	(47)	(906)	-
Loss allocated to non-controlling interests	(5,781)	(8,862)	(1)	(2)	(2,243)	(5)	(72)	-
Dividends paid to non-controlling interests	(4,601)	-	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

#### Summarised statement of cash flows

	Nanning Jucheng		YZ Tianyu Tourism		Xuzhou Yucheng		Xuzhou Jianyu	
	For the year ended		For the year ended		For the year ended		For the year ended	
	31 December		31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>								
Cash generated from(used in)/from operations	(593,212)	744,208	6,633	7,609	69,688	(168,503)	(631,395)	-
Income tax paid	(4,929)	(33,122)	-	-	(10,907)	-	-	-
Other borrowing costs paid	-	-	-	-	-	-	-	-
Interest paid	-	(4,005)	-	-	(3,986)	-	-	-
Net cash from/(used in) from operating activities	(598,141)	707,081	6,633	7,609	54,795	(168,503)	(631,395)	-
<b>Cash flows from investing activities</b>								
Interest received	3,134	2,323	1	-	270	-	4	-
Disposal of a subsidiary, net of cash disposed of	-	-	-	-	-	-	-	-
Purchase of property, plant and equipment	-	(311)	-	-	(528)	-	-	-
Acquisitions of available-for-sale investment	-	(10,000)	-	-	-	-	-	-
Acquisitions of short-term investments	-	-	-	-	-	-	-	-
Disposal of short term investments	-	-	-	-	-	-	-	-
Increase in restricted and pledged deposits	46,902	(78,610)	-	-	-	-	-	-
Net cash from/(used in) investing activities	50,036	(86,598)	1	-	(258)	-	4	-
<b>Cash flows from financing activities</b>								
New bank and other borrowings	-	-	-	-	114,000	-	-	-
Repayment of bank and other borrowings	-	-	-	-	-	-	-	-
Advance from/(repayment to) intermediate/ immediate holding company or fellow subsidiaries	592,770	(446,732)	(6,622)	(7,619)	80,083	43,486	698,258	-
Loan to shareholders	-	(162,500)	-	-	-	-	-	-
Capital contribution from shareholders	-	-	-	-	-	125,317	-	-
Net cash from/(used in) financing activities	592,770	(609,232)	(6,622)	(7,619)	194,083	168,803	698,258	-
Net increase/(decrease) in cash and cash equivalents	44,665	11,251	12	(10)	248,620	300	66,867	-
Cash and cash equivalents at beginning of year	69,735	58,484	5	15	300	-	-	-
Cash and cash equivalents at the end of year	114,400	69,735	17	5	248,920	300	66,867	-

The information above is the amount before inter-company eliminations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 50. SUBSEQUENT EVENT

1. On 13 March 2018, 廣州創富置業有限公司 (Guangzhou Chuangfu Realty Company Limited\*) (“GZ Chuangfu”), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the vendor for the acquisition of 79% of equity interest in 重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited\*) (“CQ Hesheng”), a company incorporated in the PRC (“Acquisition 1”). CQ Hesheng is currently engaged in the development of two parcels of land under six land use right certificates covering an aggregate GFA of 1,204,000 sq.m situate in a central district in the city of Chongqing (the “Chongqing Project”). The detailed terms of the acquisition are set out in a framework agreement, dated 25 January 2018, entered into with the vendor and others which are to be completed in two phrases (the “Framework Agreement”). The total consideration in Acquisition 1 amounted to RMB4,677,338,900, being RMB434,500,000 for the acquisition of 79% equity interest in CQ Hesheng and settlement of a shareholder’s loan due to the vendor by GZ Chuangfu at a principal value of RMB4,074,760,000 and outstanding interests of RMB168,078,900 accrued up to 20 December 2017 (subject to an adjustment to accrue additional interests up to the date of full repayment of the shareholder’s loan), payable in cash by five tranches, the last one taking place on 180 days after the completion of Acquisition. The completion of the Framework Agreement is subject to the fulfillment of certain conditions, whereupon GZ Chuangfu will commence the process of a step-up acquisition for the remaining 1% equity interest in CQ Hesheng at a consideration of RMB5,500,000. On the date of this annual report, a payment of RMB434,500,000 was paid to the vendor as the consideration for the 79% equity interest.

Retrospectively on 7 January 2018, GZ Chuangfu also entered into agreement with another vendor to acquire 20% equity interest in CQ Hesheng at a total consideration of RMB160,000,000. The acquisition transaction is to be completed and consideration payable by three phases. The first phase of acquisition of 1% equity is payable at a consideration of RMB5,500,000, the second phase for 11% equity at RMB60,500,000 and the last phase for 8% at RMB94,000,000. On the date of this annual report, a total amount of RMB66,000,000 has been paid by GZ Chuangfu of which RMB5,500,000 was paid for the 1% equity interest and the related transaction has been completed on 29 January 2018. The other RMB60,500,000 has been paid into a bank account co-managed by the vendor and GZ Chuangfu, and the 11% equity interest of CQ Hesheng are pledged in favour of GZ Chuangfu. The fund will be released as consideration for the 11% equity interest transfer upon the completion of Acquisition 1. The last payment of RMB94,000,000 is due 300 days after the completion of Acquisition 1. When all the acquisitions are completed, the total consideration of the acquisitions for the entire equity interest in CQ Hesheng and shareholder’s loan totaling RMB4,842,838,900, subject to an adjustment of additional interest on the shareholder’s loan. We expect the acquisition of the entire interest in CQ Hesheng and the shareholder’s loan will be completed in the 2nd quarter of 2019.

Details of the status of the development of Chongqing Project are set out in the “Property Portfolio” in the Management, Discussion and Analysis section of this annual report.

\* English name is for identification purpose only.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 50. SUBSEQUENT EVENT (continued)

2. Further to the placing agreement entered into by the Company and a financial institution acting as an arranger for the issue of medium-term bonds that are in issue, detail of which are shown in note 33 to the financial statements, on 8 January 2018, the Company agreed with the arranger to extend the size of the medium-term bond programme from HK\$1,500,000,000 to HK\$2,500,000,000.

### 51. COMPARATIVE FIGURES

Prepayments/deposits for proposed projects were previously included in trade and other receivables in the consolidated statement of financial position. To conform to current year's presentation, the above amount as at 31 December 2016 have been separated in the consolidated statement of financial position to facilitate a better presentation.

### 52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 26 March 2018.



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