

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement and the listing document referred herein is for informational purposes only as required by the Rules Governing the Listing of Securities on the Stock Exchange and is not an offer to sell or the solicitation of an offer to buy any securities in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Neither this announcement nor anything herein (including the listing document) forms the basis for any contract or commitment whatsoever. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the Company and management, as well as financial statements. No public offer of securities is to be made by the Company in the United States.

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



KWG GROUP HOLDINGS LIMITED

合景泰富集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(the “Company”, Stock Code: 1813)

US\$378 MILLION 6% GREEN SENIOR NOTES DUE 2026

(the “Notes”, Stock Code: 40683)

PUBLICATION OF THE OFFERING MEMORANDUM

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

Please refer to the offering memorandum dated 10 May 2021 (the “**Offering Memorandum**”) appended herein in relation to the issuance of the Notes. As disclosed in the Offering Memorandum, the Notes were intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Stock Exchange on that basis.

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

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

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

By Order of the Board
KWG Group Holdings Limited
KONG Jianmin
Chairman

Hong Kong, 17 May 2021

As at the date of this announcement, the Board comprises seven Directors, of whom Mr. KONG Jianmin (Chairman), Mr. KONG Jiantao (Chief Executive Officer), Mr. KONG Jiannan and Mr. CAI Fengjia are Executive Directors; and Mr. LEE Ka Sze, Carmelo JP, Mr. TAM Chun Fai and Mr. LI Binhai are Independent Non-executive Directors.

IMPORTANT NOTICE NOT FOR DISTRIBUTION IN THE UNITED STATES

You must read the following disclaimer before continuing. The following disclaimer applies to the document following this page and you are therefore advised to read this disclaimer carefully before accessing, reading or making any other use of the attached document. In accessing the attached document, 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.

You acknowledge that the attached document and the information contained therein are strictly confidential and intended for you only. You are not authorized to and you may not forward or deliver the attached document, electronically or otherwise, to any other person or reproduce such document in any manner whatsoever, nor may you disclose the information contained in the attached document to any third-party or use it for any other purpose. **Any forwarding, distribution, publication or reproduction of the attached document in whole or in part or disclosure of any information contained therein or any use of such information for any other purpose is unauthorized.** Failure to comply with this directive may result in a violation of the securities laws of applicable jurisdictions.

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 U.S. Securities Act of 1933, as amended (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.

CONFIRMATION OF YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO CHINA CITIC BANK INTERNATIONAL LIMITED, CMBC SECURITIES COMPANY LIMITED, GOLDMAN SACHS (ASIA) L.L.C., GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED, HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED, J.P. MORGAN SECURITIES PLC, STANDARD CHARTERED BANK AND THE BANK OF EAST ASIA, LIMITED (THE "JOINT LEAD MANAGERS"), THAT YOU (I) ARE OUTSIDE THE UNITED STATES, AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), PURSUANT TO AND IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

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

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

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

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("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 (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.

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

Confirmation and your representation: In order to be eligible to view the attached document or make an investment decision with respect to the securities, investors must be outside the United States. By accepting the e-mail and accessing the attached document, you shall be deemed to have represented to us that (1) you and any customers you represent are outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of the attached document by electronic transmission.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This document 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 the Joint Lead Managers 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 difference between the document distributed to you in electronic format and the hard copy version.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

US\$378,000,000
6% Senior Notes Due 2026



KWG GROUP HOLDINGS LIMITED

合景泰富集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Issue Price: 100%

KWG Group Holdings Limited (合景泰富集團控股有限公司) (the “Company” or the “Issuer”) is offering 6% senior notes due 2026 in the aggregate principal amount of US\$378,000,000 (the “Notes”). The Notes will bear interest at the rate of 6% *per annum* and will mature on August 14, 2026. Interest will be payable semi-annually in arrear on February 14 and August 14 of each year, beginning on August 14, 2021, except that the first payment of interest, to be made on August 14, 2021, will be in respect of the period from and including May 14, 2021 to but excluding August 14, 2021.

The Notes are senior obligations of the Company guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (1) those organized under the laws of the PRC, (2) exempted subsidiaries, (3) listed subsidiaries, and (4) certain other subsidiaries specified in the sections entitled “Description of the Notes” (together, the “Non-Guarantor Subsidiaries”). We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee (a “JV Subsidiary Guarantee”). We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after August 14, 2024, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to August 14, 2024, we may redeem up to 35% of the Notes, at a redemption price of 106% of the principal amount of the Notes, plus any accrued and unpaid interest, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem the Notes, in whole but not in part, at any time prior to August 14, 2024, at a price equal to 100% of the principal amount of the Notes plus (i) any accrued and unpaid interest to (but not including) the redemption date and (ii) a premium as set forth in this offering memorandum. At any time on or after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the original issue date under the indenture governing the Notes (the “Indenture”) remains outstanding, 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 accrued and unpaid interest, if any, to (but not including) the redemption date. Upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), we must make an offer to repurchase all such Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) at least pari passu in right of payment against the Company with respect to all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured unsubordinated Indebtedness pursuant to applicable law), (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) guaranteed by the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral;” (4) effectively subordinated to the other secured obligations of the Company (if any), the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor, and (5) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries. In addition, applicable law may limit the enforceability of the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See the section entitled “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

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

The Notes are being issued as “Green Bonds” under our Green Finance Framework. See the section entitled “Notes Being Issued as Green Bonds.”

Investing in the Notes involves risks. Furthermore, investors should be aware that the Notes are guaranteed by Subsidiary Guarantors which do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and that there are various other risks relating to the Notes, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Notes. See the section entitled “Risk Factors” beginning on page 18 and particularly pages 66-72 for risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“Professional Investors”) only. This document is for distribution to Professional Investors only. **Notice to Hong Kong investors:** The Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

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

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the purpose of giving information with regard to the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any). The Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) accept full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of their knowledge there are no other material facts the omission of which would make any statement herein misleading. The expected date of listing of the Notes on the Hong Kong Stock Exchange is on or around May 17, 2021.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) 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. The Notes are being offered and sold only outside the United States in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (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 January 20, 2021 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 10 PRC working days after the issue date of the Notes.

The Notes will be evidenced by a global note (the “Global Note”), in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except in the limited circumstances set out herein, individual certificates for the Notes will not be issued in exchange for beneficial interests in the Global Note. It is expected that delivery of the Global Notes will be made on May 14, 2021 or such later date as may be agreed by the Company and the Initial Purchasers (as defined in “Plan of Distribution”).

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

China CITIC Bank International	CMBC Capital	Goldman Sachs (Asia) L.L.C.	Guotai Junan International	Haitong International	HSBC	J.P. Morgan	Standard Chartered Bank	The Bank of East Asia, Limited
--------------------------------------	--------------	--------------------------------	-------------------------------	--------------------------	------	-------------	----------------------------	--------------------------------------

Sole Green Structuring Agent

J.P. Morgan

The date of this offering memorandum is May 10, 2021

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY	1	BUSINESS	128
THE OFFERING	6	REGULATIONS	158
SUMMARY CONSOLIDATED		MANAGEMENT	198
FINANCIAL AND OTHER DATA ..	14	SUBSTANTIAL SHAREHOLDERS ...	204
RISK FACTORS	18	RELATED PARTY TRANSACTIONS .	205
USE OF PROCEEDS	74	DESCRIPTION OF MATERIAL	
NOTES BEING ISSUED		INDEBTEDNESS AND	
AS GREEN BONDS	75	OTHER OBLIGATIONS	206
EXCHANGE RATE INFORMATION .	78	DESCRIPTION OF THE NOTES	243
CAPITALIZATION AND		TAXATION	326
INDEBTEDNESS	81	PLAN OF DISTRIBUTION	329
SELECTED CONSOLIDATED		TRANSFER RESTRICTIONS	335
FINANCIAL AND OTHER DATA ..	82	RATINGS	336
MANAGEMENT’S DISCUSSION AND		LEGAL MATTERS	336
ANALYSIS OF FINANCIAL		INDEPENDENT ACCOUNTANT	336
CONDITION AND RESULTS		GENERAL INFORMATION	337
OF OPERATIONS	86	INDEX TO FINANCIAL	
CORPORATE STRUCTURE	114	INFORMATION	F-1

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

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

The communication of this offering memorandum and any other document or materials relating to the issue of the securities described therein is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended (“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 securities described in this offering memorandum are only available to, and any

investment or investment activity to which this offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“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 (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.

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

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

IN CONNECTION WITH THIS OFFERING, THE JOINT LEAD MANAGERS, OR ANY PERSON APPOINTED AND ACTING IN ITS CAPACITY AS STABILIZATION MANAGER, OR ANY PERSON ACTING FOR SUCH STABILIZATION MANAGER, 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 JOINT LEAD MANAGERS, AND NOT FOR US OR ON OUR BEHALF.

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

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

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

No representation or warranty, express or implied, is made by China CITIC Bank International Limited, CMBC Securities Company Limited, Goldman Sachs (Asia) L.L.C., Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Standard Chartered Bank and The Bank of East Asia, Limited (the “Initial Purchasers”), China Construction Bank (Asia) Corporation Limited (the “Trustee”), Citicorp International Limited (the “Shared Security Agent”), China Construction Bank (Asia) Corporation Limited (the “Paying Agent” and “Transfer Agent” and the “Registrar” and together with the Shared Security Agent, the “Agents”) or any of their affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future. No assurance is given by the Issuer, the Structuring Agent or any Initial Purchaser that investing in the securities or the use of proceeds by the Issuer will satisfy, whether in whole or in part, any present or future investor expectations or requirements with respect to green bonds or sustainability. To the fullest extent permitted by law, the Initial Purchasers do not accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on their behalf in connection with the Company, the Subsidiary Guarantors, the Subsidiary Guarantees or the issue and offering of the Notes. The Initial Purchasers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this offering memorandum or any such statement.

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

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

We are not, and the Initial Purchasers are not, making an offer to sell the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)) may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes (including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any)) and distribution of this offering memorandum, see the sections entitled "Transfer Restrictions" and "Plan of Distribution."

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

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

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

CERTAIN DEFINITIONS, CONVENTIONS, CURRENCY AND FINANCIAL INFORMATION PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Company,” the “Group” and words of similar import, we are referring to KWG Group Holdings Limited (合景泰富集團控股有限公司) itself, or to KWG Group Holdings Limited (合景泰富集團控股有限公司) and its consolidated subsidiaries, as the context requires. In this offering memorandum, references to the “Board” or “Board of Directors” refer to the board of directors of the Company.

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

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

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

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

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

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

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

References to “Existing Notes” are to the January 2017 Notes, the March 2017 Notes, the September 2017 Notes, the November 2017 Notes, the August 2018 Notes, the March 2019 Notes, the July 2019 Notes, the January 2020 Notes, the August 2020 Notes and the November 2020 Notes.

References to “Guangzhou Hejing” are to Guangzhou Hejing Real Estate Development Limited (廣州合景房地產開發有限公司), a wholly-owned subsidiary of the Company.

References to the “SCB 2018 Facility” are to the transferrable HKD and USD dual currency term loan facility with a greenshoe option of US\$500 million made available to the Company pursuant to an agreement dated June 5, 2018 between, among others, the Company and SCB as agent.

References to the “SCB 2020 Facility” are to the transferrable HKD and USD dual currency term loan facility with a greenshoe option of US\$400 million made available to the Company pursuant to an agreement dated December 23, 2020 between, among others, the Company and SCB as agent.

References to the “CS 2019 Facility” are to the term loan facility in an aggregate principal amount of US\$250.0 million made available to Great Bloom Global Limited (廣盛環球有限公司), one of the Company’s subsidiaries and one of the Subsidiary Guarantors, pursuant to an agreement dated November 27, 2019 between, among others, Great Bloom Global Limited (廣盛環球有限公司), the Company and Credit Suisse AG, Singapore Branch (“CS”) as agent.

References to the “2010 Notes” are to the Company’s 12.50% senior notes due 2017. We redeemed the 2010 Notes in full on August 30, 2014 and Citicorp International Limited, as trustee with respect to the 2010 Notes, has been removed as a secured party under the Intercreditor Agreement.

References to the “2011 Notes” are to the Company’s 12.75% senior notes due 2016. We redeemed the 2011 Notes in full on March 30, 2014 and Citicorp International Limited, as trustee with respect to the 2011 Notes, has been removed as a secured party under the Intercreditor Agreement.

References to the “2012 Notes” are to the Company’s 13.25% senior notes due 2017. We redeemed the 2012 Notes in full on November 10, 2016 and Citicorp International Limited, as trustee with respect to the 2012 Notes, has been removed as a secured party under the Intercreditor Agreement.

References to the “2013 Notes” are to the Company’s 8.625% senior notes due 2020. We redeemed the 2013 Notes in full on February 26, 2017 and Citicorp International Limited, as trustee with respect to the 2013 Notes, has been removed as a secured party under the Intercreditor Agreement.

References to the “January 2014 Notes” are to the Company’s 8.975% senior notes due 2019 issued on January 14, 2014. As of the date of this offering memorandum, the Company has fully redeemed the January 2014 Notes.

References to the “August 2014 Notes” are to the Company’s 8.25% senior notes due 2019 issued on August 5, 2014. As of the date of this offering memorandum, the Company has fully redeemed the August 2014 Notes.

References to the “January 2017 Notes” are to the Company’s 6.00% senior notes due 2022 issued on January 11, 2017.

References to the “March 2017 Notes” are to the Company’s 6.00% senior notes due 2022 issued on March 15, 2017, March 29, 2017 and December 7, 2017.

References to the “September 2017 Notes” are to the Company’s 5.20% senior notes due 2022 issued on September 21, 2017.

References to the “November 2017 Notes” are to the Company’s 5.875% senior notes due 2024 issued on November 10, 2017 and July 3, 2019.

References to the “August 2018 Notes” are to the Company’s 7.875% senior notes due 2021 issued on August 9, 2018.

References to the “November 2018 Notes” are to the Company’s 9.85% senior notes due 2020 issued on November 26, 2018 and December 11, 2018. As of the date of this offering memorandum, the Company has fully redeemed the November 2018 Notes.

References to the “March 2019 Notes” are to the Company’s 7.875% senior notes due 2023 issued on March 1, 2019 and March 22, 2019.

References to the “July 2019 Notes” are to the Company’s 7.40% senior notes due 2024 issued on July 29, 2019.

References to the “January 2020 Notes” are to the Company’s 7.40% senior notes due 2027 issued on January 13, 2020.

References to the “August 2020 Notes” are to the Company’s 5.95% senior notes due 2025 issued on August 10, 2020.

References to the “November 2020 Notes” are to the Company’s 6.3% senior notes due 2026 issued on November 13, 2020.

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

SUMMARY

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 statements and related notes thereto, before making an investment decision.

Overview

We are a large-scale PRC property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi’an, Kunming, Yancheng and Hong Kong. We focus on mid- to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007 in Guangzhou. We also develop high-end hotels and operate some of them. We believe our investment properties and hotels will help to further strengthen our brand name. We have also engaged in property management business which we have recently spun off in October 2020. See “Recent Developments.”

Historically, we have focused our property developments in Guangzhou, the capital of Guangdong Province and one of China’s largest cities, capturing the opportunities presented by its rapidly growing economy. In particular, we have focused on developments in prime locations, such as the Pearl River New Town, which in recent years has been promoted by the Guangzhou government as its central business district (“CBD”). We intend to maintain our leadership position in Guangzhou’s property market while further enhancing our presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai, Nanning, Hangzhou, Hainan, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Nanjing, Shenzhen, Shaoxing, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Xi’an, Wuzhou, Kunming, Yancheng and Hong Kong, where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential by leveraging our expertise in the regions where we operate, with Guangzhou, Shenzhen, Foshan as its hubs for South China, Shanghai, Hangzhou, Suzhou, Hefei for East China, Chengdu, Chongqing and Nanning for Southwest China, Beijing, Tianjin for North China, Wuhan for Central China, and the Group’s footprint has been expanded to Hong Kong since 2017. As of December 31, 2020, we had 175 property projects with total GFA attributable to the Group of 16.63 million sq.m.

We believe that we have been able to consistently achieve a premium price for our products in all the geographic locations where we operate. Our success is attributable to our premium quality products, distinctive designs and superior property management service, all of which have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We have also been able to enhance customer confidence in our products and retain customer loyalty as indicated by high percentages of repeat customers and client referrals of our projects. We have received various awards in recognition of our premium quality products and services and our achievements as a property development company. Some of the recent awards we have received are listed below:

- The Group was recognized as 2020 China's Top 30 Listed Real Estate Enterprises by Guandian.cn.
- The Group was recognized as 2020 Top 100 PRC Property Enterprises TOP 10 of 2020 China's Top 100 Property Companies by Profitability and 2020 Noteworthy Property Companies in Capital Market by China Index Academy.
- The Group was recognized as 2020 Top 10 PRC Property Companies Listed in Hong Kong by Comprehensive Strength by China Index Academy.
- The Group was recognized as 2020 Top 500 PRC Private Enterprises by All-China Federation of Industry and Commerce.
- The Group was awarded Golden Brick Award for Real Estate in China — 2020 Property Enterprise with Outstanding Influence by 21st Century Business Herald.
- The Group was awarded Guangdong-Hong Kong-Macau Greater Bay Area Golden Competitive Award by Time Weekly.
- The Group was recognized as 2019 Top 100 Private Enterprises in Guangdong Province (the 50th) by Guangdong Federation of Industry & Commerce.
- The Group was recognized as CIHAF 2019 Reputable PRC Property Enterprises by China Real Estate Newspaper Group.
- One of the Group's city companies, Hangzhou Company, was recognized as Property Enterprise with Outstanding Contribution in Yangtze River Delta by Yangtze River Delta Party Media Urban Development Alliance.
- One of our residential properties, Guangzhou Montkam, was recognized on 2019 Guangzhou Property Value List — Benchmark Urban Property In Guangzhou by Guangzhou Real Estate Industry Association.
- One of our residential properties, Guangzhou The Jadeite, was recognized as Mansion with Best Value for Holding in Greater Bay Area by Fang.com.
- Two of our shopping malls, Chengdu U Fun and Suzhou U Fun, were on 2019 Dianping's Must Shop Lists for Shopping Mall, in Chengdu and Suzhou respectively, by dianping.com.

- One of our shopping malls, Shanghai U Fun, was recognized as 2018 Shanghai Art Business District — Outstanding Commercial Enterprise by Shanghai Municipal Administration of Culture and Tourism, Shanghai Commission of Commerce.
- One of our shopping malls, Beijing M • Cube, was awarded 2019 CCFA Golden Lily Shopping Mall — Best Marketing Award by China Chain Store & Franchise Association.
- One of our shopping malls, Chengdu M • Cube, was recognized as 2020 Project Worth Investing with Commercial Value in Chengdu by Gomall.
- The Group's Commercial Segment was recognized as Outstanding Operator in Commercial Real Estate for the Year by winshang.com.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 100 PRC Property Service Enterprises — Top 18 by China Index Academy.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 100 PRC Leading Property Service Enterprises by Service Quality by China Index Academy.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 10 Enterprises in Property Service Satisfaction in Guangdong Province by Guangdong Province Urban Community Development Research Association — Guangdong Province Property Service Satisfaction Survey Committee.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Guangdong-Hong Kong-Macau Greater Bay Area Enterprise with Leading Position in Property Service Market by China Index Academy.
- The Group's boutique hotel brand, The Mulian Hotel, was recognized as 19th China Golden Horse Award Ceremony — Top 10 Hotel Management Companies by Jury of China Golden Horse Award.
- The Group's boutique hotel brand, The Mulian Hotel, was recognized as Asia Influential Brand — Best Aesthetically Designed Hotel in Asia by Entrip.

In 2018, 2019 and 2020, we delivered a total GFA of approximately 400,602 sq.m., 1,771,190 sq.m. and 2,155,240 sq.m., respectively, generating revenue from sale of properties of approximately RMB6,064.2 million, RMB22,761.9 million and RMB28,486.7 million (US\$4,365.8 million), respectively. During the same periods, our profit for the year was approximately RMB4,154.8 million, RMB10,056.1 million and RMB6,901.3 million (US\$1,057.7 million), respectively.

Our Competitive Strengths

We believe our primary competitive strengths are:

- premium product quality;
- strong execution capability;
- product standardization supports fast asset turnover;
- prudent and disciplined land acquisition and expansion;
- high-quality investment properties and hotels;
- strong cash flow and diversified funding sources;
- proven experience in joint venture projects and strong relationship with renowned domestic and international partners; and
- seasoned management team, efficient risk control system and enhanced operational capabilities.

Our Business Strategies

Our business strategies are to:

- maintain leadership position in Guangzhou, enhance presence in other cities where we operate and conduct measured expansion in key regions;
- continue our focus on developing premium-quality products;
- continue to seek mutually beneficial joint venture partnerships in project development; and
- continue to adopt prudent financial policy and proactive approach to capital structure.

Recent Developments

The Spin-off and Separate Listing of KWG Living Group Holdings Limited on the Main Board of the Stock Exchange of Hong Kong Limited

The listing of KWG Living Group Holdings Limited (“KWG Living”) on the Main Board of the Stock Exchange took place on October 30, 2020 and dealings in the KWG Living shares on the Main Board of the Stock Exchange commenced at 9:00 a.m. on October 30, 2020. Since its spun-off, we did not retain any interest in KWG Living and it had ceased to be our subsidiary.

The Recent Coronavirus Epidemic Outbreak

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Several cities in China where we have significant landbank and operations had imposed travel restrictions in an effort to curb the spread of the highly infectious COVID-19. The COVID-19 outbreak has affected our

business operation and financial condition. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will persist and to what extent to which we may be affected. See “Risk Factors — Risks Relating to China — The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God and occurrence of epidemics.”

New Projects

Subsequent to December 31, 2020, we acquired certain parcels of land as set forth in the table below:

<u>Location</u>	<u>Attributable Interests</u> %	<u>Number of Land Parcels</u>	<u>Site Area</u> (in sq.m.)	<u>Total GFA</u> (in sq.m.)	<u>Attributable GFA</u> (in sq.m.)	<u>Attributable Land Cost</u> (RMB in million)	<u>Type</u>
Conghua District, Guangzhou ⁽¹⁾⁽²⁾ . . .	87.5%	1	79,312	222,075	194,316	469	Residential
Economic Development Zone, Tianjin ⁽¹⁾⁽²⁾	60%	1	198,661	288,691	173,215	443	Residential/ commercial
Total			277,973	510,766	367,531	912	

Notes:

- (1) We have not obtained all of the relevant land use rights certificates for these projects as of the date of this offering memorandum.
- (2) We have not paid up all the land premium for these projects as of the date of this offering memorandum.

General Information

We were incorporated in the Cayman Islands on July 28, 2006 as an exempted company with limited liability. Our principal place of business in the PRC is at International Finance Place, No. 8 Huaxia Road, Pearl River New Town, Guangzhou, China. Our place of business in Hong Kong is at Units 8503-05A, Level 85, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our website is www.kwgproperty.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

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

Issuer	KWG Group Holdings Limited (合景泰富集團控股有限公司) (the “Company”).
Notes Offered.	US\$378,000,000 aggregate principal amount of 6% senior notes due 2026 (the “Notes”).
Offering Price.	100% of the principal amount of the Notes.
Maturity Date	August 14, 2026
Interest	The Notes will bear interest, at a rate of 6% per annum, payable semi-annually in arrear on February 14 and August 14 of each year, commencing August 14, 2021, except that the first payment of interest, to be made on August 14, 2021, will be in respect of the period from and including May 14, 2021 to but excluding August 14, 2021.
Ranking of the Notes	<p>The Notes are:</p> <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least pari passu in right of payment against the Company with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral;”• effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors to the extent of the value of the assets serving as security therefor (except for the Collateral); and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Notes will:

- be entitled to the benefit of a lien on the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any permitted liens and the Intercreditor Agreement) for as long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, shared on a pari passu basis among (i) the holders of the January 2017 Notes, (ii) the holders of the March 2017 Notes, (iii) the holders of the September 2017 Notes, (iv) the holders of the November 2017 Notes, (v) the holders of the August 2018 Notes, (vi) the holders of the March 2019 Notes, (vii) the agent for and on behalf of the finance parties under the SCB 2018 Facility, (viii) the holders of the July 2019 Notes, (ix) the agent for and on behalf of the finance parties under the CS 2019 Facility, (x) the holders of the January 2020 Notes, (xi) the holders of the August 2020 Notes, (xii) the holders of the November 2020 Notes, (xiii) the agent for and on behalf of the finance parties under the SCB 2020 Facility (collectively “Existing Pari Passu Secured Indebtedness”), (xiv) agents or holders of other permitted pari passu secured indebtedness as permitted under such Existing Pari Passu Secured Indebtedness and (xv) any other creditors with respect to future 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).

Subsidiary Guarantees. . . Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) the Initial Other Non-Guarantor Subsidiaries listed under “Description of the Notes—The Subsidiary Guarantees.” See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, Exempted Subsidiaries or Listed Subsidiaries) to guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary (and its Restricted Subsidiaries) organized outside the PRC not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary, provided that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes—The Subsidiary Guarantees—Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.”

Ranking of Subsidiary

Guarantees The Subsidiary Guarantee of each Subsidiary Guarantor:

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

JV Subsidiary

Guarantees The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and

- will be limited to the JV Entitlement Amount and will rank at least pari passu with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

No JV Subsidiary Guarantee exists as of the Original Issue Date.

Security to be Granted . . . The Company has pledged, for the benefit of the holders of the Notes, or caused the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each initial Subsidiary Guarantor other than Market Network Limited (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and each Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Collateral will be shared on a pari passu basis by the holders of the Notes and the holders of other secured indebtedness including the agent for and on behalf of the finance parties, the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the agent for and on behalf of the finance parties under the SCB 2018 Facility, the holders of the August 2018 Notes, the holders of the March 2019 Notes, the holders of the July 2019 Notes, the agent for and on behalf of the finance parties under the CS 2019 Facility, the holders of the January 2020 Notes, the holders of the August 2020 Notes, the holders of the November 2020 Notes, the agent for and on behalf of the finance parties under the SCB 2020 Facility and agents or holders of other permitted pari passu secured indebtedness as permitted under such Existing Pari Passu Secured Indebtedness and any other creditors with respect to future Permitted Pari Passu Secured Indebtedness. See “Description of the Notes—Security.”

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the Collateral if all Indebtedness secured by the Collateral has been repaid or such Collateral has been released, concurrently with or prior to the release of all security over the Collateral securing such Indebtedness (in each case other than the Indebtedness represented by the Notes and the Subsidiary Guarantees). After such release, subject to “Description of the Notes—Certain Covenants—Limitation on Liens,” the Company shall not be obligated to pledge, or cause any Subsidiary Guarantor to pledge, as the case may be, the capital stock of any Subsidiary Guarantor or any JV Subsidiary Guarantor to secure the Notes or the relevant Subsidiary Guarantees.

Intercreditor Agreement . The Company, the initial Subsidiary Guarantor Pledgors, and the Shared Security Agent, among others, have entered into an intercreditor agreement dated August 18, 2010 (as so amended and supplemented from time to time, the “Intercreditor Agreement”), to which, the trustee with respect to the January 2017 Notes acceded on January 11, 2017, the trustee with respect to the March 2017 Notes acceded on March 2017, the trustee with respect to the September 2017 Notes acceded on September 21, 2017, the trustee with respect to the November 2017 Notes acceded on November 7, 2017 and SCB as agent for and on behalf of the finance parties under the SCB 2018 Facility acceded on June 5, 2018, the trustee with respect to the August 2018 Notes acceded on August 9, 2018, the trustee with respect to the March 2019 Notes acceded on March 1, 2019, the trustee with respect to the July 2019 Notes acceded on July 29, 2019, CS as agent for and on behalf of the finance parties under the CS 2019 Facility acceded on December 4, 2019, the trustee with respect to the January 2020 Notes acceded on January 13, 2020, the trustee with respect to the August 2020 Notes acceded on August 10, 2020, the trustee with respect to the November 2020 Notes acceded on November 13, 2020, SCB as agent for and on behalf of the finance parties under the SCB 2020 Facility acceded on December 23, 2020 and any agents or holders of other permitted pari passu secured indebtedness as permitted under the Existing Pari Passu Secured Indebtedness who become parties to the Intercreditor Agreement. The Trustee acceded to the Intercreditor Agreement on the Original Issue Date, pursuant to which it will agree to (1) share the Collateral on an equal and ratable basis with the other secured parties, (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral, and (3) the conditions under which its rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

Use of Proceeds The Company intends to use the net proceeds to refinance the Company’s existing medium to long term offshore indebtedness that are due within one year and in accordance with our Green Finance Framework.

Optional Redemption of the Notes At any time and from time to time on or after August 14, 2024, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on August 14 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2024	103%
2025	101.5%

At any time prior to August 14, 2024, 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 redeemed 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 August 14, 2024, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 106% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time on or after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, 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 accrued and unpaid interest, if any, to (but not including) the redemption date.

The Company will give not less than 15 days’ nor more than 60 days’ notice of any redemption.

The Company may, with the consent of Holders of not less than 75% in aggregate principal amount of the outstanding Notes, amend the redemption date or the redemption price of the Notes from that stated under “Description of the Notes—Optional Redemption.”

Repurchase of Notes

Upon a Change of

Control Triggering

Event

Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date. See “Description of the Notes—Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation

Reason

Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes—Redemption for Taxation Reasons.”

Covenants The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of 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 shareholders or affiliates; and
- effect a consolidation or merger.

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

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

Form, Denomination and Registration The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depository for Euroclear and Clearstream.

Book-Entry Only The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants, including Euroclear and Clearstream. 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 May 14, 2021 which the Company expects will be the fourth business day following the date of this offering memorandum, referred to as “T+4” You should note that initial trading of the Notes may be affected by the T+4 settlement. See “Plan of Distribution.”	
Shared Security Agent . . .	Citicorp International Limited.	
Trustee, Registrar, Paying Agent and Transfer Agent	China Construction Bank (Asia) Corporation Limited.	
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum.	
Ratings	The Notes are expected to be rated BB- by Fitch Ratings. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.	
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.	
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”	
Security Codes	<u>ISIN</u>	<u>Common Code</u>
	XS2343325622	234332562

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our summary financial and other data. The summary consolidated statement of profit or loss for the years ended December 31, 2018, 2019 and 2020 and the summary consolidated statement of financial position data as of December 31, 2018, 2019 and 2020 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, independent certified public accountants, and included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period. Our financial statements 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 the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Profit or Loss and Other Financial Data⁽¹⁾

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
				(unaudited)
	(in thousands, except percentages)			
CONTINUING OPERATIONS				
Revenue	7,477,471	24,956,261	29,742,063	4,558,171
Cost of sales	<u>(5,026,202)</u>	<u>(17,090,481)</u>	<u>(20,383,239)</u>	<u>(3,123,868)</u>
Gross profit	2,451,269	7,865,780	9,358,824	1,434,303
Other income and gains, net	2,703,427	2,858,916	1,628,096	249,517
Selling and marketing expenses	(532,080)	(1,007,351)	(1,222,410)	(187,343)
Administrative expenses	(1,313,835)	(1,726,064)	(1,560,784)	(239,201)
Other operating expenses, net	(1,727)	(4,456)	(2,981)	(457)
Fair value gains on investment properties, net	1,714,657	3,716,461	415,157	63,626
Finance costs	(1,070,059)	(1,531,336)	(1,034,243)	(158,505)
Share of profits and losses of:				
Associates	(279)	513,706	354,669	54,355
Joint ventures	<u>1,439,857</u>	<u>2,933,397</u>	<u>2,126,580</u>	<u>325,913</u>
Profit before tax from continuing operations	5,391,230	13,619,053	10,062,908	1,542,208
Income tax expenses	<u>(1,236,396)</u>	<u>(3,562,969)</u>	<u>(3,397,779)</u>	<u>(520,732)</u>
Profit for the year from continuing operations	<u>4,154,834</u>	<u>10,056,084</u>	<u>6,665,129</u>	<u>1,021,476</u>
DISCONTINUED OPERATION				
Profit for the year from a discontinued operation	—	—	236,180	36,196
Profit for the year	<u>4,154,834</u>	<u>10,056,084</u>	<u>6,901,309</u>	<u>1,057,672</u>
OTHER FINANCIAL DATA				
EBITDA ⁽²⁾	4,771,986	10,982,106	12,648,543	1,938,474
EBITDA margin ⁽³⁾	63.8%	44.0%	42.5%	42.5%

Notes:

- (1) On October 30, 2020, in connection with the listing of KWG Living Group Holdings Limited (“KWG Living”), all the issued share capital of KWG Living held by us was distributed to our shareholders. Since then, we did not retain any interest in the issued share capital of KWG Living and KWG Living became a fellow subsidiary of us. The operating results of KWG Living and its subsidiaries (collectively KWG Living Group) before the spin-off of KWG Living have been presented as a discontinued operation (the “Discontinued Operation”) in the consolidated statement of profit or loss for the year ended December 31, 2020 since it represented a separate major line of business. Therefore, the accounts of the consolidated statement of profit or loss of our Group for the year ended December 31, 2020 represented our results from the continuing operations and the Discontinued Operation, respectively. The comparative consolidated statements of profit or loss for the years ended December 31, 2018 and 2019 represented our results from the then continuing operations, which were not restated and not comparative with our results for the year ended December 31, 2020.
- (2) EBITDA for any period consists of profit before tax less fair value gains on investment properties, net, other income and gains, net, and share of profits and losses of associates plus finance costs, capitalized interest included in cost of sales, taxes, depreciation and amortization expenses. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.” EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” for a reconciliation of our profit for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes—Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (3) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position Data

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT ASSETS				
Property, plant and equipment	5,351,448	6,411,151	7,780,054	1,192,345
Investment properties	17,490,590	27,263,329	29,320,849	4,493,617
Land use rights	1,109,471	1,152,384	2,651,855	406,415
Interests in associates	3,452,270	4,670,441	5,338,823	818,210
Interests in joint ventures	34,715,581	42,996,460	46,872,043	7,183,455
Deferred tax assets	1,642,044	1,872,238	2,432,853	372,851
Other non-current assets	—	211,928	—	—
Total non-current assets	<u>63,761,404</u>	<u>84,577,931</u>	<u>94,396,477</u>	<u>14,466,893</u>
CURRENT ASSETS				
Properties under development	47,302,324	51,760,690	65,613,320	10,055,681
Completed properties held for sale	8,919,658	10,928,887	15,000,367	2,298,907
Trade receivables	957,665	2,166,759	1,914,579	293,422
Prepayments, deposits and other receivables	6,406,463	7,401,565	9,814,732	1,504,174
Due from a joint venture	30,069	30,062	30,004	4,598
Taxes recoverable	482,606	722,780	848,419	130,026
Restricted cash	4,099,329	5,356,141	3,944,716	604,554
Cash and cash equivalents	<u>52,577,643</u>	<u>51,377,864</u>	<u>40,635,765</u>	<u>6,227,703</u>
Total current assets	<u>120,775,757</u>	<u>129,744,748</u>	<u>137,801,902</u>	<u>21,119,065</u>
CURRENT LIABILITIES				
Trade and bills payables	4,077,063	9,072,301	13,165,515	2,017,703
Lease liabilities ⁽¹⁾	—	230,445	209,341	32,083
Other payables and accruals	22,517,471	27,627,042	31,746,296	4,865,333
Due to an associate	592,204	1,345,495	3,244,654	497,265
Due to joint ventures	39,294,914	37,742,306	35,207,964	5,395,857
Interest-bearing bank and other borrowings	17,363,932	23,728,043	25,255,339	3,870,550
Taxes payable	<u>6,851,772</u>	<u>9,926,137</u>	<u>12,284,787</u>	<u>1,882,726</u>
Total current liabilities	<u>90,697,356</u>	<u>109,671,769</u>	<u>121,113,896</u>	<u>18,561,517</u>
NET CURRENT ASSETS	<u>30,078,401</u>	<u>20,072,979</u>	<u>16,688,006</u>	<u>2,557,548</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>93,839,805</u>	<u>104,650,910</u>	<u>111,084,483</u>	<u>17,024,441</u>
NON-CURRENT LIABILITIES				
Lease liabilities ⁽¹⁾	—	1,895,326	1,567,291	240,198
Interest-bearing bank and other borrowings	60,418,315	61,849,507	52,605,276	8,062,111
Deferred tax liabilities	1,647,439	2,661,444	2,993,183	458,725
Deferred revenue	<u>2,042</u>	<u>2,042</u>	<u>2,042</u>	<u>313</u>
Total non-current liabilities	<u>62,067,796</u>	<u>66,408,319</u>	<u>57,167,792</u>	<u>8,761,347</u>
Net assets	<u>31,772,009</u>	<u>38,242,591</u>	<u>53,916,691</u>	<u>8,263,094</u>

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
EQUITY				
Equity attributable to owners of the Company				
Issued capital	303,909	304,148	304,474	46,663
Treasury shares	(125)	(176)	(1,723)	(264)
Reserves	<u>28,474,780</u>	<u>35,490,786</u>	<u>43,232,126</u>	<u>6,625,613</u>
	28,778,564	35,794,758	43,534,877	6,672,012
Non-controlling interests	<u>2,993,445</u>	<u>2,447,833</u>	<u>10,381,814</u>	<u>1,591,082</u>
Total equity	<u><u>31,772,009</u></u>	<u><u>38,242,591</u></u>	<u><u>53,916,691</u></u>	<u><u>8,263,094</u></u>

Notes:

- (1) On January 1, 2019, the Company adopted the HKFRS 16. Prior to the adoption of HKFRS 16, the Company previously classified leases as either finance leases or operating leases. Upon the adoption of HKFRS 16, the Company applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term.

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before making an investment decision. 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 adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, 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 are dependent on the performance of the PRC property market, particularly in the regions where we have established operations

Our business and prospects depend on the performance of the property market in the PRC. As of December 31, 2020, we had 175 projects at various stages of development located in Guangzhou, Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi'an, Kunming, Yancheng and Hong Kong, 57 of which were completed and 118 of which were under development or held for future development. As of December 31, 2020, we had 12 completed projects and 23 projects under development or held for future development in Guangzhou. We cannot assure you that the demand for new properties in Guangzhou and other regions and cities in China where we operate or intend to expand will continue to grow or that prices will not deteriorate. In addition, volatility in market conditions and fluctuations in property prices, as well as the demand for properties have been affected and will continue to be affected by the economic, social, political and other factors that are outside of our control and we cannot assure you that there will not be an over-supply of properties or an economic downturn in the property sectors in Guangzhou and other cities and regions of China. Any such over-supply or economic downturn may result in a slow down in property sales or downward pressure on property prices regionally or nationwide. Any adverse development in the property market in Guangzhou or other regions and cities in China where we operate or may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

Our business is subject to extensive governmental regulation and, in particular, we are susceptible to policy changes in the PRC property sector

Our business is subject to extensive governmental regulation and the macroeconomic control measures implemented by the PRC government from time to time. As with other PRC property developers, we must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designated to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional

taxes and levies on property sales and restrict foreign investment in the PRC property sector. The PRC government has also in recent years announced a series of other measures designed to stabilize the growth of the PRC economy and to stabilize the growth of specific sectors, including the property market, to a more sustainable level.

Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be amended and revised over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. We cannot assure you that the PRC government will not adopt additional and more stringent industry policies, regulations and measures in the future, nor can we assure you when or whether the existing policies will be eased or reversed.

If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business, reduce our sales or average selling prices, or cause us to incur additional costs, our business prospects, results of operations and financial condition may be materially and adversely affected.

For more information on PRC governmental regulation, policies and measures, see “Regulations.” You should also read the various risk factors under the section entitled “—Risks Relating to the Real Estate Industry in China—The PRC government may adopt further measures to slow down growth in the property sector” below for more information relating to these risks and uncertainties relating to the extensive PRC regulations.

Our results of operations may vary significantly from period to period

Our results of operations may vary significantly from period to period, due to a number of factors, including the timetables of our property development projects, the timing of the sale of properties that we have developed, our revenue recognition policies and any volatility in expenses such as raw material costs. The overall schedules of our property development and the number of properties that we can develop or complete during any particular period are limited as a result of the substantial capital required for the acquisition of land, demolition of existing structures, resettlement of prior inhabitants and construction. The sale of properties we develop is subject to general market or economic conditions in the areas where we conduct our business and the level of acceptance of our properties by prospective customers. According to our accounting policy, we recognize revenue upon the completion and delivery of properties to purchasers, which may take up to two years after the commencement of pre-sales. Therefore, in periods in which we pre-sell a large aggregate GFA, we may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. In addition, our business depends on obtaining adequate supplies of raw materials and is subject to fluctuation in the market prices of raw materials. The prices that we pay for raw materials may increase due to increased industry demand, inflation, higher fuel and transportation costs and other factors. We will continue to experience significant fluctuations in revenue and profit from period to period in connection with our property development business. We therefore believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with more stable recurring revenue.

We maintain a significant amount of indebtedness, which may materially and adversely affect our liquidity and our ability to service our indebtedness

We have maintained a significant amount of indebtedness to finance our operations. As of December 31, 2018, 2019 and 2020, our total bank loans was RMB29,783.0 million, RMB35,573.9 million and RMB31,642.4 million (US\$4,849.4 million), respectively. We also finance some of our

property developments with senior notes and domestic corporate bonds. See “Description of Material Indebtedness and Other Obligations.” Our gearing ratio, calculated as net borrowings (total bank loans, senior notes and domestic corporate bonds, as applicable, net of cash and cash equivalents and restricted cash) divided by total equity, was 66.4%, 75.4% and 61.7%, respectively, as of December 31, 2018, 2019 and 2020, respectively. Of our total outstanding bank loans of RMB31,642.4 million (US\$4,849.4 million) as of December 31, 2020, RMB7,531.5 million (US\$1,154.2 million) will be repayable within 12 months and RMB24,110.9 million (US\$3,695.2 million) was repayable in more than one year.

Our cash flow and results of operations of our operating subsidiaries will affect our liquidity and our ability to service our indebtedness, including our various senior notes, loan facilities and domestic corporate bonds. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. Furthermore, some of our debt and some of our bank loans contain cross-default provisions under which default in one such debt agreement could trigger a default under our other debt agreements or one or more of the other bank loans as well. We cannot assure you that we will be able to successfully refinance our existing indebtedness or that we will be able to secure additional financing on acceptable terms, on a timely basis, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or our refinancing efforts are unsuccessful, our liquidity, business and financial condition will be materially and adversely affected.

In addition to bank loans, we rely on proceeds from the pre-sale of our properties as a major source of funding for our property development activities. If our pre-sales are limited or reduced for any reason, including policy or regulatory changes, a reduction in demand for or in the prices of our properties, or delays in our property development schedule, we could experience cash flow shortfalls and difficulties in funding our property development activities and servicing our indebtedness.

We may not always be able to obtain land reserves that are suitable for development

We derive our revenue principally from the sale of properties that we have developed. Therefore, we must maintain or increase our land reserves in strategic locations at an appropriate pace in order to ensure sustainable business growth. Based on our current rate of property development, we believe we have sufficient land reserves for development for the next several years. To have a steady stream of developed properties available for sale and support sustainable growth, we need to replenish and increase our land reserves with additional land suitable for development.

Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control. The supply of substantially all of the land in China is controlled by the PRC government. The land supply policies adopted by the PRC government directly impact our ability to acquire land use rights for development and our costs of such acquisitions. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC government also controls land supply through zoning, land usage regulations and other means. All these measures further intensify the competition for land in China among property developers. In 2002, the PRC government introduced a nationwide system of mandatory public tender, auction or listing-for-sale for the grant of land use rights for commercial use, tourism, entertainment and commodity property development. In 2007, the PRC Ministry of Land and Resources (“Ministry of Land and Resources”) issued revised rules, which further stipulate legal and procedural requirements on the means by which state-owned land use rights can be granted by the PRC government for

industrial purposes, commercial purposes, tourism, entertainment and commodity property development, and require that the land premium must be paid in full to the local land administration bureau pursuant to the underlying land grant contract before the land use rights certificate can be issued to the land user. On May 13, 2011, the Ministry of Land and Resources issued opinions which provide that, factors which affect the development and utilization of land, such as land price and the time of payment, development and construction period, requirement of construction, the degree of economical and intensive use of land, performance of previous grant contracts and other factors shall be considered by the government when determining the land user. In addition, the Ministry of Land and Resources and the PRC Ministry of Housing and Urban-Rural Development (“MOHURD”) (formerly the PRC Ministry of Construction) has issued various notices and circulars relating to planning and construction conditions and land use standards. The MOHURD and the Ministry of Land and Resources jointly issued the “Circular of Relevant Work on Strengthening the Recent Administration and Control of Housing and Land Supply” (《關於加強近期住房及用地供應管理和調控有關工作的通知》) dated April 1, 2017 which provides, among others, that cities and counties that have more than one million inhabitants shall make three-year (2017–2019) and five-year (2017–2021) plans for housing land supply, and make such plans public by the end of June 2017. The circular further requires that local governments shall adjust the size, structure and timing of land supply for residential housing in due course based on the period of depleting commodity residential housing inventory. In addition, the circular stipulates that local authorities shall adopt the examination system of land acquisition capital to insure that the property developers use internal funds to acquire lands and that, if the land bid capital originate from a questionable source, the property developers shall be disqualified and prohibited from bidding for land for a designated time. The implementation of these regulations may increase land transfer prices and require property developers to maintain a higher level of working capital. For more details, see “—Risks Relating to the Real Estate Industry in China—The PRC government may adopt further measures to slow down growth in the property sector.” The PRC government’s policy to grant state-owned land use rights at competitive market prices is likely to increase the acquisition cost of land reserves generally in the PRC.

If we fail to acquire sufficient land reserves in a timely manner and at acceptable terms, or at all, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We may not always be able to obtain land use rights certificates with respect to certain parcels of land in connection with which we have entered into various contractual arrangements

We may not be able to obtain land use rights certificates with respect to certain parcels of land. Under current PRC land grant policies, the relevant authorities will not issue the formal land use rights certificate for a piece of land until the developer has paid the land premium in full, completed the resettlement process and is in compliance with other land grant conditions, and the land use rights for properties and lands will not be formally vested until corresponding land use rights certificates have been issued. As of the date of this offering memorandum, there were several parcels of land related to Salar de Uyuni, Yunshang Retreat and Oriental Bund with respect to which we had been issued or entered into land grant confirmation letters or land grant contracts but had not obtained all the land use rights certificates. As of December 31, 2020, we had paid land premium in the aggregate amount of RMB15,969.0 million (US\$2,447.4 million). In addition, subsequent to December 31, 2020, we have acquired or have been awarded, certain parcels of land for which we have not obtained the relevant land use rights certificates and/or have not paid up the land premium. See “Recent Developments” for further information.

We cannot assure you that we will enter into formal land grant contracts, or that the relevant PRC government authorities will grant us the appropriate land use rights or issue the relevant land use rights certificates in respect of these parcels of land or in respect of other land we may contract to acquire in the future, in a timely manner, or at all. Nor can we assure you that our contractual arrangements will eventually result in our acquisition of any land use rights. As these contractual arrangements are subject to various government approvals that involve relatively complex procedures, it is not uncommon to take years to complete the acquisition of the underlying land, if at all. If we fail to obtain, or experience material delay in obtaining, the land use rights certificates with respect to any parcels of land we have contracted or may contract to acquire in the future, our business, results of operations and financial condition may be materially and adversely affected. Furthermore, we cannot assure you that if the transactions as contemplated in the relevant agreements cannot be completed, any refund of our prepayments will be provided in a timely manner, or at all. If we fail to obtain refunds, our financial condition, cash flow and results of operations may be materially and adversely affected.

Restrictions on the payment terms for land use rights and other restrictions under the land grant contracts may have a material adverse affect on our cash flow position, financial condition and business plans

Fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally raised cash. In November 2009, the PRC government raised the minimum land premium down payment to 50%. In March 2010, this requirement was further tightened. The PRC government set the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted, and the bidding deposit at not less than 20% of the minimum land premium. Additionally, a land grant contract must be entered into within 10 working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remainder to be paid in full within one year of the date of the land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions), or property developments.

In 2007, the Ministry of Land and Resources issued revised Rules Regarding the Grant of State-owned Land Use Rights for Construction by Way of Tender, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》), which provides that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and commence development on the land. This regulation became effective on November 1, 2007. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. The implementation of such regulation requires property developers to maintain a higher level of working capital, which may have a material adverse effect on our cash flow position, financial condition and business plans.

In addition, the land grant contracts or other land grant approvals issued by the local land authorities may also impose other restrictions on property developers. For instance, with respect to our property projects in certain cities such as Guangzhou, Chongqing and Nantong, we are required under relevant land grant contracts to hold all or part of our properties developed for commercial use for more than ten years and may not sell or transfer such property without prior approval from the local land authorities. In addition, with respect to our property projects in certain cities such as

Beijing, Shanghai, Nanning and Xuzhou, we are required under relevant land grant contracts to build some price-limited commodity houses (限價商品房), talent apartments (人才公寓) or settlement buildings (安置房). We are also required to obtain prior approval from the local land authority before we can transfer the land use rights with respect to certain of our projects.

We may not have adequate financing to fund our land acquisitions and property projects

Property development is capital-intensive. We finance our property projects primarily through a combination of internal funds, project loans from banks, capital contributions from shareholders, proceeds from pre-sales and sales of our developed properties and other financing sources such as our issuances of offshore senior notes and domestic corporate bonds. Our ability to procure adequate and suitable financing for acquisitions of land or companies and property developments depends on a number of factors that are beyond our control, including general economic conditions, our financial strength and performance, credit availability from financial institutions, financing costs and monetary policies in China.

The PRC government has in recent years implemented a number of measures to control money supply and credit availability for fixed-asset investments, particularly with respect to the property development sector. See “Regulations.”

On January 3, 2008, the State Council issued a Notice on Promoting the Economic Use of Land (《關於促進節約集約用地的通知》) with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice also urges financial institutions to exercise caution when they review loan applications from property developers that have failed to complete development of at least one-third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract.

In addition, People’s Bank of China (“PBOC”) has frequently adjusted the reserve requirement ratio for commercial banks. The reserve requirement ratio currently ranges from 13.0% to 16.5%. Such increases may negatively impact the amount of funds available to lend to business, including us, by commercial banks in China. The PRC government could also introduce other initiatives that may further limit our access to capital, and/or consequently reduce our flexibility and ability to use bank loans or other forms of financing to finance our acquisitions and property developments. For example, in April 2010 the PRC State Council (the “State Council”) issued the Notice on Resolutely Curbing the Excessive Hike of Property Prices in Some Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which mandates that developers who hold idle land or speculate in land will not be granted bank loans for the development of new property projects, and such restrictions were reiterated by the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知) which was announced by the General Office of the State Council on February 26, 2013. In September 2010, PBOC and the China Banking and Insurance Regulatory Commission (“CBRC”) jointly issued a notice to prohibit banks from lending to any property developer for its new projects or renewal of its existing loans if such developer has a track record of maintaining idle land, changing the use and nature of land without proper approval, delaying the construction, commencement or completion date, hoarding properties or other non-compliance. On February 13, 2017, the Asset Management Association of China (the “AMAC”) issued the No. 4 Administrative Rules for the Filing of Private Equity and Asset Management Plans Issued by Securities and Futures Institutions (《證券期貨經營機構私募資產管理計劃備案管理規範第4號》) (“Rule 4”), which temporarily suspends the AMAC from accepting any private equity and asset management plan which makes a direct or indirect investment in any ordinary residential property project located in specified cities where the property prices are

considered to have risen too fast, including Beijing, Shanghai and Guangzhou, and prevents private equities and asset management plans from funding real estate development enterprises to pay land premium or supply working capital through ways including, but not limited to entrusted loans, trust plans or transfers of beneficial interests in assets. On May 11, 2018, the NDRC and the MOF promulgated the Circular of the National Development and Reform Commission and the Ministry of Finance on Improving Market Regulatory Regime and Taking Strict Precautions Against Foreign Debt Risks and Local Debt Risks (《國家發展改革委、財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知》) which may further restrict our financing capacity through foreign debt. In addition, according to the information published by NDRC on its website, proceeds raised from an offshore debt offering shall be mainly used to repay the issuer's existing debt. Such proceeds are restricted to be used for the issuer's onshore and offshore real estate projects financing, and are also restricted to be used as working capital. On July 12, 2019, the NDRC published on its website A Notice on Requirements for Foreign Debt Registration Application by Real Estate Enterprises (關於對房地產企業發行外債申請備案登記有關要求的通知), which imposes more restrictions on real estate enterprises incurring medium to long term foreign debt. The use of proceeds of foreign debt incurred by a real estate developer is limited to refinancing medium to long term offshore debts of the real estate developer which will become due within one year. On December 28, 2020, PBOC and CBRC jointly promulgated the Notice on Establishing a Centralization Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》), which requires a PRC financial institution (excluding its overseas branches) to limit the amount of real estate loans and personal housing mortgage loans it lends to a proportion calculated based on the total amount of RMB loans extended by such financial institution. A relevant financial institutions will have a transition period of two or four years to comply with the requirements depending on whether such financial institution exceeded 2% of the legal proportion based on the statistical data relating to such financial institution as of December 31, 2020. Under the notice, PBOC and CBRC will have the authority to take measures such as, among other things, imposing additional capital requirements on and reallocating the weight adjustments relating to the risk of real estate assets for financial institutions that fail to rectify the proportion requirements within a certain period.

These government actions and policy initiatives limit our ability to use bank loans and trust financings to finance our acquisitions and property development projects. The PRC government, moreover, could introduce other initiatives which may further limit our access to capital, and consequently limit our ability to obtain bank loans, the net proceeds from this offering or other forms of financing. If we fail to secure adequate financing or renew our existing credit facilities prior to their expiration, or if the PRC government adopts further restrictive credit policies in the future, our business, results of operations and financial condition may be materially and adversely affected.

Our land appreciation tax (“LAT”) provisions and prepayments may not be sufficient to meet our LAT obligations

In accordance with the provisions of the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) and the related implementation rules, all entities and individuals that receive income from the sale or transfer of land use rights, buildings and ancillary facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of such properties. The PRC government issues rules and regulations in respect of LAT, including rules and regulations relating to assessable rates, the deductibility of certain expenses and the collection and settlement of LAT. In addition, the PRC government has determined that provincial and local tax bureaus may formulate their own implementing rules and determine how LAT will be settled in their jurisdiction. For more details, see “Regulations—Taxation in China—Land Appreciation Tax.” There is an exemption for the sale of

ordinary residential properties if the appreciated value does not exceed 20% of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. The ordinary residential portion of our mixed residential and commercial developments will not be eligible for the exemption available to ordinary residential properties if we fail to account for the added value separately or fail to accurately account for the added value on the ordinary residential portion and other types of properties.

We make LAT prepayments and provisions in respect of our property development activities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—LAT” in this offering memorandum. We cannot assure you that the relevant tax authorities will 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, in particular, the local tax bureau of Guangzhou and other cities and regions where we operate our business, determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount immediately, our cash flow, results of operations and financial condition may be materially and adversely affected.

We have historically experienced negative net operating cash flow

We have historically relied on cash flow provided by bank borrowings, proceeds from debt securities offering on the PRC and offshore capital markets and the dividends from our subsidiaries. In 2018 and 2019, we had a net operating cash outflow of RMB2,271.7 million and RMB4,275.6 million, respectively. Our negative operating cash flow was largely attributable to the fact that a number of the projects had yet to yield significant cash flow while we incurred significant land acquisition and construction costs. Although we believe that our operating cash flow will improve, particularly due to the completion of some of the our projects that are expected to generate cash inflow after sales begin, there can be no assurance that our historical negative operating cash flow will not continue in the near future. Consequently, we will continue to rely on external financing to satisfy our working capital and capital expenditure, thus increasing our financial vulnerability, which could adversely affect our financial condition and results of operations.

The global economic slowdown, crisis in global financial markets and volatility of property prices have negatively affected, and may continue to negatively affect, our results of operations, business and our ability to obtain necessary financing for our operations

The global economic slowdown, crisis in global financial markets, including the economic turmoil in Europe, and volatility of property prices beginning in the second half of 2008 have had a negative impact on the PRC economy, which in turn has affected the PRC property market. For example:

- slow economic growth and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices, which in turn have affected our turnover and profit margin;
- weak economic conditions have also affected the ability and speed of property developers in commencing new development projects or expanding existing projects; and
- the tightening of credit has negatively affected the ability of property developers and potential property purchasers to obtain financing.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains high, and recovery in the housing market remains subdued. In addition, in 2011, the United States received a credit rating downgrade for long-term United States debt for the first time in 70 years, heightening market volatility in major stock markets. 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 the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may slow down due to weakened exports. On June 23, 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). The United Kingdom ceased to be a member of the European Union (the "EU") on January 31, 2020 ("Brexit"). During the period from that date to December 31, 2020, certain transitional arrangements were in effect, such that the UK continued to be treated, in most respects, as if it were still a member of the EU, and generally remained subject to EU law. On December 24, 2020, the EU and the UK reached an agreement in principle on the terms of certain agreements and declarations governing the ongoing relationship between the EU and the UK, including the EU-UK Trade and Cooperation Agreement (the "TCA"). On December 29, 2020, the Council of the European Union adopted a decision authorizing the signature of the TCA and its provisional application in the EU for a limited period (the "Provisional Period"), pending ratification of the TCA by the European Parliament. The TCA was subsequently signed on behalf of the EU on December 30, 2020; and the Provisional Period commenced on January 1, 2021, and is expected to end no later than April 30, 2021. Legislation to implement the TCA in the UK came into effect beginning on December 31, 2020. However, the TCA is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the UK's future economic, trading and legal relationships with the EU and with other countries. In addition, it is possible that the TCA may not be ratified by the European Parliament prior to the end of the Provisional Period, or at all, which would lead to further uncertainty as to the nature and terms of any subsequent relationships between the EU and the UK, and disruption may arise as a result. The actual or potential consequences of Brexit, and the associated uncertainty, could adversely affect economic and market conditions in the UK, in the EU and its member states and elsewhere, and could contribute to instability in global financial markets. The effect of such potential events on us or the Notes is impossible to predict; but they could significantly impact volatility, liquidity and/or the market value of securities, including the Notes, and could have a material adverse effect on our ability to make payments on the Notes.

China's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions caused by the U.S.-China trade war. In 2018 and 2019, the U.S. government, under the administration of President Donald J. Trump, imposed several rounds of tariffs on cumulatively US\$550 billion worth of Chinese products. In retaliation, the Chinese government responded with tariffs on cumulatively US\$185 billion worth of U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organization against the U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to global markets. On January 15, 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "Phase I Agreement"). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a

comprehensive resolution of the trade war. The roadmap to the comprehensive resolution remains unclear, and the lasting impact the trade war may have on China's economy and the real industry remains uncertain.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, homeowners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their sale prices. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be negatively affected.

We may be adversely affected by the performance of third-party contractors

We engage third-party contractors to provide various services, including piling and foundation, construction, facilities installation, interior decoration and electromechanical installation. We generally select independent contractors through an open tender process. We cannot assure you that the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet our quality and safety standards. If the performance of any independent contractor is not satisfactory, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Further, the completion of our property developments may be delayed, and we may incur additional costs due to a contractor's financial or other difficulties. In addition, we are expanding our business into other regions in China, and there may be a shortage of contractors that meet our quality requirements in such markets. Moreover, contractors may undertake projects for other developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for us on time or within budget. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

If we are not properly insulated from the rising cost of labor or construction materials, our results of operations may be adversely affected

As the result of economic growth and the boom in the property industry in the PRC, wages for construction workers and the prices of construction materials have experienced substantial increases in recent years. In addition, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was promulgated on June 29, 2007 and revised on December 28, 2012 with effect from July 1, 2013, and its implementing rules enhanced the protection for employees and increased employers' liability which may further increase our labor costs. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract. However, we are exposed to the price volatility of labor and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span over several years, or when we choose to hire construction workers directly or purchase construction materials directly from suppliers. Furthermore, we typically pre-sell our properties prior to their completion and we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. If we are unable to pass on any increase in the cost of labor or construction materials to either our construction contractors or to the purchasers of our properties, our results of operations may be negatively

affected. In addition, increased cost of the properties as a result of the increase in the cost of labor or construction materials may reduce our revenue since purchasers may be less willing to purchase our properties.

Disputes with joint venture partners or our project development partners may adversely affect our business

We have developed and are planning to develop certain projects jointly with other entities through joint ventures or cooperation agreements. Our joint venture partners or project development partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture or cooperation agreements; or
- have financial difficulties.

Additionally, a disagreement with any of our joint venture partners, project development partners or planned partners in connection with the negotiation and finalization of our joint venture agreement, the scope or performance of our respective obligations under the project or joint venture or cooperation arrangement could affect our ability to develop or operate a property. Our joint venture partners or project development partners may be unable or unwilling to perform their obligations under the relevant agreements, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise. A serious dispute with our joint venture partners or project development partners, the early termination of our joint venture or cooperation arrangements or the failure of planned joint venture agreements to materialize could adversely affect our business, financial condition and results of operations.

Should a situation arise in which we cannot complete a project being jointly developed with our joint venture partners or property development partners, due to one of the above reasons or for any other reason, the rights and obligations of each party with respect to the uncompleted project will be determined by the relevant joint venture or cooperation agreements. If such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, results of operations and financial condition. See “—Risks Relating to Our Business—We may be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities or damage to our reputation as a result.”

In the event that we encounter any of the foregoing problems with respect to our joint venture partners or project development partners, our business, financial condition and results of operations may be materially and adversely affected.

Our results of operations may be affected by the performance and reputation of, and any adverse developments relating to, the hotel management partners that manage our hotels and serviced apartments

We have entered into management agreements with Starwood Hotels Group, an internationally renowned hotel management group. Pursuant to these agreements, Starwood Hotels Group is providing hotel and serviced apartment operation and management services to the W Hotel in Guangzhou and Four Points by Sheraton Guangzhou, Dongpu. We have also engaged and intend to engage other international hotel management companies to manage our hotel developments, including Hyatt and Marriott. See “Business—Hotel Management.” Therefore, our results of operations may be affected by the performance of these hotel management partners, as well as any adverse publicity or other adverse developments that may affect these companies or their brands generally. For example, under the terms of the management agreements with the Starwood Hotels Group, the Starwood Hotels Group will control the daily operations of our hotels and serviced apartments. Although we intend to monitor our hotel management partners’ performance and although we participate in making operating and financial management decisions, we typically do not have the direct authority to require any hotel or serviced apartment to be operated in a particular manner or to influence any particular aspect of the daily operations of any hotel or serviced apartment (for instance, setting room rates or managing personnel). Thus, even if we believe our hotels and serviced apartments are being operated inefficiently or in a manner that does not result in optimal or satisfactory occupancy rates, operating profit margins or other performance indicators, we may not be able to require the hotel management partners to change the way they manage our hotels and serviced apartments. Any disagreement between our hotel management partners and us in respect of the management of our hotels and serviced apartments and any adverse publicity or other adverse developments that may affect the brand image of the hotel brands held by the hotel management partners in general may adversely affect the performance of our hotels and serviced apartments, and as a result, our results of operations. In addition, in the event that we wish to replace any of our hotel management partners, we may be unable to do so under the terms of our management agreements or we may need to pay substantial termination fees and may experience disruptions at the relevant hotels and serviced apartments. The effectiveness and performance of the hotel management partners in managing our hotels and serviced apartments will, therefore, significantly affect the revenue, expenses and value of our hotels and serviced apartments.

Our objectives may conflict from time to time with the objectives of our hotel management partners, which may adversely impact the operations and results of operations of our hotels and serviced apartments

The hotel management partners that operate our hotels and serviced apartments have no exclusive arrangements with us and own, operate or franchise properties other than our properties, including properties that may compete with our properties. Therefore, our hotel management partners may have interests that differ from or conflict with our own with respect to short-term or long-term goals and objectives. These differences may be significant depending upon many factors, including the remaining term of our management or tenancy agreement, trade area restrictions with respect to competition or differing policies, procedures or practices. Any of these factors may adversely impact the operations and results of operations of our hotels and serviced apartments, which could harm our business, financial condition and results of operations.

The hotel industry is dependant on the levels of business and leisure travel, demand for and supply of hotel rooms and other factors

A number of factors, many of which are common to the hotel industry and are beyond our control, could affect our business, including the following:

- adverse economic conditions;
- dependence on business, commercial and leisure travelers and tourism;
- dependence on meeting and conference business;
- the impact of acts of war or increased tensions between certain countries, increased terrorism threats, terrorist events, impediments to means of transportation (including airline strikes, road closures and border closures), extreme weather conditions, natural disasters, outbreaks of diseases and health concerns, rising fuel costs or other factors that may affect travel patterns and reduce the number of business and leisure travelers;
- adverse effects of international market conditions, which may diminish the demand for first class and luxury leisure travel or the need for business travel, as well as national, regional and local political, economic and market conditions where our hotels operate and where our customers live;
- increased competition and periodic local oversupply of guest accommodation, which may adversely affect occupancy rates and room rates;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs, utility costs (including energy costs), increased taxes and insurance costs, as well as unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
- seasonality in travel patterns;
- changes in interest rates and in the availability, cost and terms of debt financing; and
- changes in governmental laws and regulations (including trade restrictions), fiscal policies and zoning ordinances and the related costs of compliance.

These factors could have a material adverse effect on our hotel operations, which in turn will affect our financial condition and results of operations.

We incur significant construction and capital expenditures for development and renovation of investment properties and hotels and certain fixed costs in relation to hotel and rental property operations

Unlike properties developed for sale which can be pre-sold (subject to applicable PRC laws relating to pre-sales) to finance other property developments, our investment properties and hotels require significant upfront capital expenditures but generate no cash inflow until the development has been completed and the hotel operation or the lease with respect to the relevant investment properties commences. In addition, our existing investment properties and hotels, and all of our future investment properties and hotels, will require continuing capital expenditures associated with

renovations and other capital improvements, some of which are mandated by health, safety or other regulations or by the hotel management partners. The cost of construction and capital improvements could have a material adverse effect on our business, financial condition and results of operations. The fixed costs associated with owning hotels and investment properties, including rental property operating and maintenance expenses, hotel operating and maintenance expenses, taxes, other fees and payments, may be significant. There may not be sufficient and consistent market demand for hotels and rental properties in our target markets. We may be unable to reduce the fixed costs in a timely manner in response to a decline in demand for our hotel services or investment properties for rental, and any failure to adjust our fixed costs may adversely affect our business, financial condition and results of operations. Moreover, our hotels and investment properties may be subject to increases in operating and other expenses due to adverse changes in contractual terms and increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could materially adversely affect our business, financial condition and results of operations.

We may not be able to effectively manage our expansion and growth

While we have historically focused on developing properties in Guangzhou, we have expanded into other cities such as Suzhou, Chengdu, Beijing, Shanghai, Tianjin, Nanning, Hangzhou, Hainan, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Nanjing, Shenzhen, Shaoxing, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Xi'an, Wuzhou, Kunming, Yancheng and Hong Kong, and intend to further explore other promising markets in and outside China. Our expansion is based on our forward-looking assessment of market prospects. We cannot assure you that our assessments will turn out to be accurate. In addition, to succeed with our business expansion, we will need to recruit and train new managers and other employees and build our operations and reputation in our target regional markets within a relatively short period of time. We have limited knowledge of the conditions of these other property markets and little or no experience in property development in these regions. As we enter new markets, we may not have the same level of familiarity with contractors, business practices and customs and customer tastes, behavior and preferences as compared to the cities where we are an established property developer. In addition, when we enter new geographical areas, we may face intense competition from developers with an established presence and market share in those areas. Therefore, we cannot assure you that we can successfully execute our contemplated expansion plan or that we will succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows. Furthermore, our business expansion may place a substantial strain on our managerial and financial resources. Any failure in effectively managing our expanded operations may materially and adversely affect our business, prospects, results of operations and financial condition.

In addition, we routinely evaluate potential acquisition and divestiture transactions and may from time to time consider to divest or partially monetize parts of our business, including any of our ancillary or complementary businesses, such divestitures or monetization may be in the form of separate listings of parts of our business or through strategic transactions. Any such transaction could happen at any time, could be material to our business and could take any number of forms. In addition, even if we execute a definitive agreement, publicly announce our intention, or otherwise take formal steps, to proceed with any such potential acquisition or divestment, there can be no assurance that we will consummate the transaction within the anticipated timeframe, or at all. If expansion into new business sectors or such divestitures are not successful, our development, growth prospects and results of operations may be adversely affected. On June 24, 2020, we announced on the Hong Kong Stock Exchange that we propose to spinoff and separately list the shares of our

subsidiary, KWG Living, on the main board of the Hong Kong Stock Exchange. KWG Living and its subsidiaries principally engage in the provision of residential property management services and commercial property management and operational services. On October 30, 2020, listing of KWG Living on the main board of Hong Kong Stock Exchange took place and it has ceased to be our subsidiary. See “Recent Development.” We cannot assure you that the spin-off will generate the economic and commercial benefit that we expected.

We may not be successful in leveraging our past experience in residential property development to expand to our hotel, serviced apartments and investment property businesses

We have entered the hotel, serviced apartments and investment property businesses through the development and management of office buildings, serviced apartments and hotels. In connection with our investment property business, we completed our first office building, the International Finance Place, in 2007 in Guangzhou. In 2016, we also completed IGC Shopping Mall in Guangzhou. In 2017, we had a grand opening ceremony of our U Fun Shopping Center in Shanghai. In connection with our hotel business, in September 2009, we opened our first hotel property, Four Points by Sheraton Guangzhou, Dongpu, located in Dongpu, Tianhe District, Guangzhou. In November 2011, the Sheraton Guangzhou Huadu Resort in Guangzhou commenced operations⁽¹⁾. We developed the first W Hotel in China, the W Hotel in Guangzhou, which officially commenced operations in May 2013. In January 2014, we commenced the soft launch of The Mulian Hotel in Guangzhou, our proprietary boutique hotel brand, with operations also located in Future Science City in Hangzhou. Our Mulian Hotel in Hangzhou commenced soft launch in September 2015. In May 2017, we commenced the operation of Conrad Guangzhou. In July 2017, we commenced the operation of Chengdu The Mulian. In 2018, we commenced the operations of Courtyard Suzhou and Mulian CRH North Station Suzhou. In 2019, we commenced the operations of Mulian Canton Fair Guangzhou and Mulian Nansha Phoenix Lake Guangzhou. In addition, we are planning to develop 11 other high-end hotels and boutique “the Mulian” hotels in Chengdu, Wuhan, Xi’an, Hangzhou and etc. We have entered into various agreements with Starwood Hotels Group, Hyatt and Marriott to manage international branding hotels, and also have operated our boutique brand “The Mulian” hotels. However, our experience as a residential property developer may not be applicable to the development of these types of investment properties. We cannot assure you that we will be able to leverage our past experience to face the challenges in these new investment property businesses. We rely and will continue to rely on third-party property management companies to conduct the daily operation of these serviced apartments and hotels. If their performance is not satisfactory to our guests or tenants, the occupancy rate and/or rental value for our hotels and serviced apartments may decrease, and thus adversely affect our results of operations and our reputation. We also may not be able to reduce the costs associated with the management of hotels and serviced apartments in a timely manner in response to changes in demand for those properties. Furthermore, the performance of our investment properties is subject to various factors beyond our control, such as the economic conditions and the level of business activities, business travel and tourism in the region. There may not be sufficient and consistent market demand for high-end hotels, serviced apartments and office space in Guangzhou and our other target markets in the PRC, and, as a result, our results of operations in these new segments may not be profitable or generate recurring income or cashflow as we expect, and could even operate at a loss.

Note:

(1). We have rescinded the operating agreement of Sheraton Guangzhou Huadu Resort with Marriott. Starting from July 1, 2017, the name of Sheraton Guangzhou Huadu Resort has been changed to the Mulian and was owned and operated by us.

The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our results of operations

We are required to reassess the fair value of our investment properties as of each balance sheet date. In accordance with HKFRS, gains or losses arising from changes in the fair value of our investment properties should be accounted for in our statements of comprehensive income in the period in which they arise. Our investment properties were revalued by an independent property valuer as of December 31, 2017, 2018 and 2019, respectively, on an open market for existing use basis which reflected market conditions at those dates. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated statements of financial position, and recognized changes in fair values of investment properties and the relevant deferred tax on our consolidated statements of comprehensive income. In 2018, 2019 and 2020, the fair value gains on our investment properties, net of deferred tax, were RMB1,286.0 million, RMB2,787.3 million and RMB311.4 million (US\$47.7 million), respectively, and accounted for approximately 31.0%, 27.7% and 4.5%, respectively, of our profit for the respective years.

Fair value gains do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not increase our liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. All these factors are beyond our control and we cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the historical levels, or at all, or that the fair value of our investment properties will not decrease in the future. We reported net fair value gains on investment properties of approximately RMB415.2 million (US\$63.6 million) in 2020, mainly related to various leasable commercial properties in various regions. If the fair value of our investment properties declines, or if the number of investment properties decreases, our profitability could be materially and adversely affected.

We have mortgaged certain properties and pledged shares in certain subsidiaries to secure our borrowings

We have mortgaged certain of our properties and pledged shares in certain subsidiaries to secure some of our general banking facilities. If we default on such banking facilities, the lenders may foreclose such properties we mortgage and shares in subsidiaries we pledge. Although the terms of our indebtedness limits our ability to do so, we cannot assure you that we will not mortgage our properties or pledge shares in subsidiaries to secure our borrowings in the future. Nor can we assure you that we will not default on any of our borrowings in the future.

We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments

The purchasers of our properties may need mortgage loans to purchase our properties, and we typically arrange for various banks to provide these mortgage loans. In accordance with market practice, the mortgagee banks require us to guarantee our customers' mortgage loans. Typically, our guarantee obligations for such customers' mortgage loans are released upon the earlier of (i) the satisfaction of the mortgage loan by the purchaser of the property; and (ii) the issuance of the property ownership certificate for the mortgaged property. If a purchaser defaults on a mortgage

loan guaranteed by us we may have to repay the mortgage loan. If we fail to do so, the mortgagee bank may foreclose the underlying property and recover any balance from us as the guarantor of the defaulted mortgage loan. In line with industry practice, we rely on the credit analysis performed by the mortgagee banks in respect of individual customers and we do not conduct any independent credit checks on them.

As of December 31, 2020, our outstanding guarantees for the mortgage loans of our customers amounted to RMB20,271.7 million (US\$3,106.8 million). If any material default by our customers occurs on such loans, we may be required to honor our guarantees and our results of operations and financial position may be materially and adversely affected.

We may suffer certain losses not covered by insurance

We do not carry comprehensive insurance against all potential losses or damages with respect to our properties before their delivery to customers nor do we maintain insurance coverage against liability from tortious acts, property damage or personal injury relating to the construction and maintenance of our properties. Although we expect our third-party construction companies to maintain appropriate insurance coverage, we cannot assure you that their insurance would cover or be sufficient to satisfy all claims, or that we would not be sued or held liable for damages notwithstanding their insurance coverage. Moreover, there are certain losses for which insurance is not available on commercially practicable terms in China, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our business, we may not have sufficient financial resources to cover such losses, damages or liabilities or to satisfy our related obligations. Any payment we make to cover any losses, damages or liabilities may have a material and adverse effect on our business, results of operations and financial condition.

We may not be able to complete our development projects according to schedule or on budget

A property development project requires substantial capital expenditures prior to and during the construction period, and it may take over a year before a development generates positive cash flow through pre-sales or sales. The progress of, and costs for, a development project can be adversely affected by many factors, including:

- changes in market conditions, an economic downturn or a decline in consumer confidence;
- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and demolition of existing structures;
- increases in the market prices of raw materials if we cannot pass on the increased costs to customers;
- shortages of materials, equipment, contractors and skilled labor;
- latent soil or subsurface conditions and latent environmental damage requiring remediation;
- unforeseen engineering, design, environmental or geographic problems;

- labor disputes;
- construction accidents;
- natural disasters;
- adverse weather conditions;
- changes in government practices and policies, including reclamation of land for public works or facilities; and
- other unforeseen problems or circumstances.

Our property projects are at risk from earthquakes, floods and other natural disasters in the regions where we operate. Damage to any of our properties or impact on the markets, whether by natural disasters or otherwise, may either delay or preclude our ability to develop and sell our properties or adversely affect our budget for the projects. We cannot assure you that we will not experience significant delays in completion or delivery of our projects or subject to liability for any such delays. Construction delays or failure to complete construction of a project according to its planned specifications, schedule or budget may materially and adversely affect our reputation, business, results of operations and financial condition.

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

As of December 31, 2020, all of our bank and other loans were charged at floating interest rates, except for loan balances with an aggregate principal amount of RMB51,642.4 million (US\$7,914.5 million), which were charged at fixed interest rates. Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In April 2006, PBOC raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. PBOC again increased the one-year lending rate six times in 2007 from 6.12% to 7.47% in December 2007. Beginning in 2008, PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31% in December 2008, which remained unchanged until October 2010. The one-year lending rate increased to 5.81% as of December 31, 2010, increased to 6.06% effective from February 9, 2011, increased to 6.31% effective from April 6, 2011 and increased to 6.56% effective from July 7, 2011. This rate has since been reduced twice in 2012 to 6.00% in light of signs of slowing economic growth. The PBOC promulgated the Notice of the People's Bank of China on Further Promoting the Market-Oriented Interest Rate Reform in July 2013, which provides that the lower limit of 0.7 times the benchmark lending rate for financial institutions shall be removed and the financial institutions shall independently determine their lending rates in accordance with commercial principles. However, the floating range of interest rates for individual housing loans shall not be adjusted, the original range shall remain unchanged, and the differentiated housing credit policy shall continue to be strictly implemented. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by PBOC, any further increase in such benchmark lending rates will increase the interest costs for our developments.

A substantial portion of our interest expense has been capitalized as part of the cost of properties under development, which is recognized in our consolidated statements of comprehensive income as cost of sales upon the sale of properties. As a result, such capitalized interest expense may adversely affect our gross profit margin upon the sales of properties in future.

In addition, increases in interest rates may affect our customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase our properties.

We may have to compensate our customers if we fail to meet all requirements for the delivery of completed properties and the issuance of property ownership certificates

According to the relevant PRC law, property developers must meet various requirements within 90 days after the delivery of property or such other time period that may be provided in the relevant sales and purchase agreement to assist a purchaser in obtaining the individual property ownership certificate. We generally elect to specify the deadline to apply for an individual property ownership certificate in the sales and purchase agreement to allow sufficient time for the application and approval process. Within three months of the date of the completion certificate for a development, we must apply for a general property ownership certificate for the entire development. This involves, among other things, the submission of a number of documents, including land use rights documents, planning approvals and construction permits. Following the effective date of a sales and purchase agreement for one or more units in a development, we then assist the purchaser to apply for an individual property ownership certificate for each unit. This involves submission of other documents, including the sales and purchase agreement, identification documentation for the purchaser, evidence of payment of deed tax and a copy of the general property ownership certificate issued to us. Delay by a purchaser in providing the documents relating to the purchaser, or delay by the various administrative authorities in reviewing the relevant application document, as well as other factors beyond our control, may affect timely delivery of the relevant individual property ownership certificate. Under current PRC laws and regulations and under our sales and purchase agreements, we are required to compensate our customers for delays in delivery caused by us of individual property ownership certificates. We cannot assure you that delays in delivery caused by us of the required property ownership certificates will not occur. Significant delays with respect to one or more of our developments may materially and adversely affect our reputation, business, results of operations and financial condition.

The PRC government may impose fines on us or take back our land if we fail to develop a property according to the terms of the land grant contract

Under current PRC laws and regulations, if we fail to develop a property according to the terms of the land grant contract, including terms relating to the payment of land premium, demolition and resettlement costs and other fees, the specified use of the land and the time for commencement and completion of the development, the PRC government may issue a warning, impose a penalty, and/or take back our land. In addition, if we fail to pay any outstanding land grant premium on time, we may be subject to a late payment penalty for every day of delay in payment. The PRC government may also impose an idle land fee equal to 20% of the land premium or allocation fees if (i) we do not commence construction for more than one year after the date specified in the relevant land grant contract, (ii) total constructed GFA is less than one-third of the total proposed GFA for the development, or (iii) the capital invested in the development is less than one-fourth of the total investment approved for the development and the development is suspended for more than one year without governmental approval. Furthermore, the PRC government has the authority to take back the land, without compensation to us, if we do not commence construction for more than two years after the date specified in the land grant contract, unless the delay is caused by force majeure or governmental action. This policy was reinforced in the Notice on Promoting the Saving and Intensification of Use of Land (《國務院關於促進集約節約用地的通知》) promulgated by the State Council on January 3, 2008. This notice states, among other things, that the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, the

Ministry of Land and Resources issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land (《關於嚴格建設用地管理促進批而未用土地利用的通知》) in August 2009, which reiterates the current rules on idle land.

On June 1, 2012, the Ministry of Land and Resources revised and promulgated the (Measure for the Disposal of Idle Land) (《閒置土地處置辦法》), which further clarified the scope and definition of idle land, as well as the corresponding punitive measures. Pursuant to the Measures for the Disposal of Idle Land, if a parcel of land is deemed to constitute idle land by the competent department of land and resources, unless otherwise prescribed by the new Measures for the Disposal of Idle Land, the land shall be disposed of in the following ways:

- where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the peoples government at the same level, issue a Decision on Collecting Charges for Idle Land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land assignment or allocation fee; and the said charges for idle land shall not be included in the production cost by the holder of the land use rights; and
- where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the peoples government at the same level, issue a Decision on Recovering the Right to Use the State-owned Land for Construction Use to the holder of the land use rights and recover the right to use the State-owned construction land without compensation.

As of December 31, 2020, we were late in paying the land premium for certain parcels of land in certain projects. We have fully paid all land premium for such projects as of the date of this offering memorandum, and have obtained land use rights certificates to some parcels of land within these projects. Although we have not been notified of any late payment penalty, we cannot assure you that the local government will not impose any monetary penalty for our late payment of land premium. Moreover, we cannot assure you that the local government will not terminate the land grant contracts related to and confiscate such parcels of land for which we have not yet received the land use rights certificate. In addition, as of December 31, 2020, we had certain parcels of land related to certain projects that we had not commenced development within the time stipulated in the relevant land grant contracts and certain parcels of land of our projects such as Villa Como, Fortunes Season and Yunshang Retreat have been identified as idle land. Although we have now commenced development or obtained approval to postpone development in relation to certain of the aforesaid projects and have not been imposed any penalties or received any notice of the taking back of the land, we cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse affect on our business, results of operations and financial condition. If any of our land is taken back by the government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred prior to the date in connection with such land.

Our acquisition of companies holding land use rights may be unsuccessful and our acquisition agreements may not provide us with sufficient protection against potential liability

We intend to continue to acquire the controlling equity interests in companies holding land use rights as a means of expanding our business and land bank. However, we may face strong competition during the acquisition process and we may not be successful in selecting or valuing target companies or their land appropriately. As a result, we may be unable to complete such acquisitions at reasonable cost, or at all. In addition, we may have to allocate additional capital and human resources to integrate the acquired business into our operations. We also cannot assure you that the integration of any acquired company will be successfully completed within a reasonable period of time, or at all, or that it will generate the economic benefit that we expected.

Our success depends on the continued services of our senior management team

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, our chairman, Kong Jian Min. Many members of our senior management team have more than 16 years of property development experience in the PRC. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Moreover, along with our steady growth and expansion into other regional markets in China, we will need to employ, train and retain additional suitable skilled and qualified management and employees from a wider geographical area. If we cannot attract and retain suitable personnel, our business and future growth may be materially and adversely affected.

We may be subject to risks in relation to our property management services

We engage third-party property management companies on behalf of our purchasers to manage the residential properties we developed. We believe that property management is an important part of our business strategy and is critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, a majority of property owners of a residential community of certain size have the right to change the property management service provider. In 2018, 2019 and 2020, the revenue derived from our property management services was RMB565.7 million, RMB1,014.3 million and RMB732.9 million (US\$112.3 million), respectively.

On June 24, 2020, we announced on the Hong Kong Stock Exchange that we propose to spin-off and separately list the shares of our subsidiary, KWG Living, on the main board of the Hong Kong Stock Exchange. KWG Living and its subsidiaries principally engage in the provision of residential property management services and commercial property management and operational services. On October 30, 2020, listing of KWG Living on the main board of Hong Kong Stock Exchange took place. See “Recent Development.” We cannot assure you that the spin-off will generate the economic and commercial benefit that we expected.

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

We may be involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, original owners and residents, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs and the

diversion of resources and management's attention. As most of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may materially and adversely affect our reputation, business, results of operations and financial condition. See "Business—Legal Proceedings" in this offering memorandum.

In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our property developments. In the past, we have been penalized, such as by payment of a fine, or reprimanded by regulatory bodies. While these have not caused any material adverse effect on our business, there can be no assurances that any future failure on our part to comply with applicable laws or regulations would not result in more serious penalties. Any failure by us, our executive officers, employees and other agents to fully adhere to the PRC or other applicable anti-corruption laws or any failure to comply with other applicable laws or regulations could materially and adversely affect our reputation and our business, results of operations and financial condition.

Our business, results of operations, financial condition and prospects may be adversely affected as a result of negative media coverage relating to us or the property market in which we operate

We may be subject to and associated with negative publicity, including those on the Internet, with respect to our corporate affairs and conduct related to our personnel. The property market in which we operate may also be subject to negative reports or criticisms by various media, including in relation to incidents of fraud and bribery. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Nonetheless, any negative coverage, whether or not related to us or our related parties and regardless of truth or merit, may have an impact on our reputation and, consequently, may undermine the confidence of our customers and investors, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects.

We are subject to legal and business risks and our business may be adversely affected if we fail to obtain or maintain the required qualification certificates and other requisite government approvals

A PRC property developer must hold a valid qualification certificate to develop property. In addition, at various stages of project development, the PRC property developer must also obtain various licenses, certificates, permits and approvals from the relevant PRC administrative authorities, including land use rights certificates, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion.

According to the Provisions on Administration of Qualifications of Real Estate Developers (《房地產開發企業資質管理規定》) issued by the then PRC Ministry of Construction on March 29, 2000 and as amended on May 2015 and December 2018, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be renewed annually for not more than two consecutive years. If, however, the newly established property developer fails to commence a property development project within the one-year period following the provisional qualification certificate, it will not be allowed to extend the term of its provisional qualification certificate. Developers with longer operating histories must submit their qualification certificates to relevant construction administration authorities for review annually. Government regulations require developers to fulfill all statutory requirements before they may obtain or renew their qualification certificates.

We conduct our property developments through project companies. These project companies must hold valid qualification certificates to be able to conduct their businesses. As of the date of this offering memorandum, certain project companies have not obtained or renewed or finished annual inspection of qualification certificates and we are in the process of the applying or will apply for such certificates according to their respective project development schedules, such as Guangzhou Chuangjing Real Estate Development Co., Ltd., Linhai Jinxuan Property Development Co., Ltd., Guangzhou Tianhui Real Estate Development Co., Ltd., Guangzhou City Weiyu Property Development, Foshan City Xinhui Property Development and Foshan City Xinjing Property Development. We cannot assure you that our project companies will continue to be able to obtain or renew the necessary qualification certificates in a timely manner, or at all. If any of our project companies does not obtain or renew the necessary qualification certificate in a timely manner, or at all, our prospects, and our business, results of operations and financial condition may be materially and adversely affected.

In addition to the above, we cannot assure you that we will not encounter significant problems in satisfying the conditions to, or delays in, the issuance of qualification certificates of our other companies, other necessary licenses, certificates, permits or approvals. As of December 31, 2020, certain PRC subsidiaries and joint ventures and associates had not fully paid their registered capital, such as the newly incorporated entities, such as Guangdong Dakeyun Investment Management Co., Ltd., Guangzhou Zhaojing Real Estate Development Co., Ltd., Guangzhou Jingzhi Real Estate Co., Ltd., Suzhou Zhuoyu Real Estate Development Co., Ltd., Guangzhou Chuangjing Real Estate Development Co., Ltd., Guangzhou City Haotai Business Service Co., Ltd. and Beijing Yujing Property Development Co., Ltd. There may also be delays on the part of the administrative bodies in reviewing and processing our applications and granting licenses, certificates, permits or approvals. If we fail to obtain the necessary governmental licenses, certificates, permits or approvals for any of our major property projects, or a delay occurs in the government's examination and review process, our development schedule and our sales could be substantially delayed, resulting in a material and adverse effect on our business, results of operations and financial condition.

The value of our properties may be affected if the current ancillary facilities in the vicinity of our residential communities cease to provide services to the owners or users of our properties

The ancillary facilities (e.g., schools, hospitals and public parks) in the vicinity of our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thereby offering a better living environment to our property owners and users. However, we do not operate nor manage some of the ancillary facilities. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that some or all of these facilities cease to operate in our residential communities, our properties may become less attractive and less valuable.

Any failure to protect our brand and trademarks could have a negative impact on our business

We believe our brands and trademarks are critical to our success. Any unauthorized use of our brands, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

Increase in resettlement costs or similar costs associated with certain property developments may materially and adversely affect our business, financial condition and results of operations

Land parcels acquired by property developers for future development may have existing buildings or other structures or may be occupied by third parties. Where land is obtained from the PRC government, resettlement or similar costs are usually included in the land premium payable. Government authorities are required to enter into written agreements with the owners of properties subject to demolition and to provide compensation for their relocation and resettlement costs. The compensation payable by government authorities cannot be lower than the market value of similar properties at the time of expropriation. If the compensation paid by government authorities increases significantly due to increases in property market prices, the land premiums payable by us may be subject to substantial increases, which could adversely affect our business, results of operations and financial condition. In addition, any delay or difficulty in the resettlement process may cause a delay in the delivery of land to us, in whole or in part, and may require an increase in the fees payable in connection with the resettlement process. In addition, if a local government fails to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, it may unilaterally decide on a compensation plan for such owners or residents, but the owners or residents have the right to file for administrative review with relevant government authorities or initiate lawsuits, which may delay a project's timetable. Such delays may lead to an increase in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business, financial condition and results of operations may be materially and adversely affected.

Risks Relating to the Real Estate Industry in China

The PRC government may adopt further measures to slow down growth in the property sector

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

- requiring real estate developers to finance, with their internal resources, at least 25% of the total investment (excluding affordable housing projects);
- limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;
- suspending land supply for villa construction and restricting land supply for high-end residential property construction;
- requiring that at least 70% of the land supply approved by any local government for residential property development during any given year must be used for developing low- to medium-cost and small- to medium-size units for sale or as low-cost rental properties;
- requiring that at least 70% of the total development and construction area of residential projects approved or constructed on or after June 1, 2006 in any administrative jurisdiction must consist of units with a unit floor area of less than 90 sq.m. and that projects which have received project approvals prior to this date but have not obtained

construction permits must adjust their planning in order to comply with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from such ratio under special circumstances upon approval from the MOHURD;

- requiring any first-time home owner using housing reserves (住房公積金) to pay the minimum amount of down-payment at 20% of the purchase price of the underlying property if the underlying property has a unit floor area of less than 90 sq.m. and the purchaser is buying the property as a primary residence, or 30% of the purchase price if the underlying property has a unit floor area of larger than 90 sq.m.;
- requiring any second-time home buyer to pay an increased minimum mortgage loan interest rate at 110% of the relevant PBOC benchmark one-year bank lending interest rate;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate, and (iii) limiting the terms of such bank borrowings to no more than 10 years, with commercial banks allowed flexibility based on their risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down-payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;
- limiting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- imposing or increasing taxes on short-term gains from second-hand property sales;
- restricting foreign investment in the property sector by, among other things, increasing registered capital and other requirements for establishing foreign-invested real estate enterprises (“FIREEs”), tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons;
- requiring commercial banks to suspend mortgage loans to customers for purchase of a third or further residential property, or to non-residents who cannot provide proof of local tax or social security insurance payments for more than a one-year period;
- adjusting the benchmark one-year lending rate published by PBOC multiple times over the past years with the benchmark one-year lending rate as of December 31, 2019 being 4.15%;
- adjusting the PBOC Renminbi deposit reserve requirement ratio for all PRC deposit-taking financial institutions several times in 2011, 2012, 2014, 2015, 2016, 2018, 2019 and early 2020, with the current ratio ranging from 10.5% to 12.5%, effective as of January 6, 2020; and
- further increasing down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments for those cities with excessive growth in housing prices.

Beginning in the second half of 2008, in order to mitigate the impact of the global economic slowdown, the PRC government adopted measures to encourage domestic consumption in the residential property market and support property development. However, in December 2009 and January 2010 the PRC government adjusted some policies in order to enhance the regulation of the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain regions and cities. At the same time, the PRC government abolished certain preferential treatments relating to business taxes payable upon transfers of residential properties by property owners and imposed more stringent requirements on the payment of land premiums by property developers. In addition, in April 2010 the PRC government identified certain policy measures to increase down payment for properties purchased with mortgage loans. In January 2011, the PRC government adopted certain new policies to cool down the real estate property market, including increasing the minimum down-payment to at least 60% of the total purchase price for second-house purchases with a minimum mortgage lending interest rate at least 1.1 times the benchmark rate, in certain targeted cities restricting purchasers from acquiring second (or further) residential properties and restricting non-residents that cannot provide any proof of local tax or social security payments for more than a specified time period from purchasing any residential properties, imposing property tax in certain cities and levying business tax on the full amount of transfer price if an individual owner transfers a residential property within five years of purchase. In addition, certain cities, including Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Chengdu, Foshan, Nanjing, Hangzhou and Sanya, promulgated measures further limiting the number of residential properties one family is allowed to purchase. On February 26, 2013, the PRC government further adopted more strict policies for properties purchase, including increasing down payment ratios and interest rates for loans to purchase second properties for those cities with excessive growth in housing prices and imposing individual income tax at a rate of 20% from the sale of a self-owned property. In the third quarter of 2013, the minimum down payment was raised to 70% in several cities. In 2015 and 2016, in certain cities where restrictions on the purchase of residential property had not been implemented, the minimum down payment for first-time home buyers was reduced to 25% of the property price, whereas the minimum down payment for second home buyers who had not fully paid off their existing housing loan was reduced to 30%. In August 2020, the MOHURD and the PBOC announced that they are considering new rules on capital monitoring and financing for key real estate enterprises, which would impose certain requirements on the asset-liability ratio (excluding proceeds from advance sales), net debt ratio and cash short-term debt ratio of real estate enterprises. It is unclear when and how such rules will be implemented. On December 28, 2020, PBOC and CBRC jointly promulgated the Notice on Establishing a Centralization Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》), which is effective from January 1, 2021. This notice stipulates certain requirements with respect to the proportions of real estate loans and personal housing loans to all Renminbi-denominated loans for banking financial institutions (excluding their overseas branches). These financial institutions will be given a transition period of two or four years to adjust their loan structures, and restrict their proportion of real estate loans to a fixed ratio that varies from 40% to 12.5%, and their proportion of individual housing loans to a fixed ratio that varies from 32.5% to 7.5%. For a more detailed description of the PRC government's measures to curtail the overheating of the PRC property market, see the section entitled "Regulations—The Land System of The PRC—National Legislation." These measures may limit our access to capital resources, reduce market demand for our products and increase our operating costs in complying with these measures. We cannot assure you that the PRC government will not adopt additional and more stringent measures, which could further slow down property development in China. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business or cause us to incur additional costs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The property industry in China is still at a relatively early stage of development, and there is a significant degree of uncertainty in the market as a whole

Private ownership of property in China is still at a relatively early stage of development. Demand for private residential property has been increasing rapidly in recent years. However, increased demand has often been coupled with volatile market conditions and fluctuations in prices. Numerous factors may affect the development of the market and accordingly, it is very difficult to predict when and how much demand will develop. Limited availability of accurate financial and market information and the general low level of transparency in China contribute to overall uncertainty. Investors may be discouraged from acquiring new properties due to the lack of a liquid secondary market for residential properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property. Finally, the risk of over-supply is increasing in parts of China where property investment, trading and speculation have become more active. If as a result of any one or more of these or similar factors, demand for residential property or market prices decline significantly, our business, results of operations and financial condition may be materially and adversely affected.

Increasing competition in the property industry in China, particularly in Guangzhou and other cities where we operate, may adversely affect our business and financial condition

We face competition from a number of property developers. Our existing and potential competitors include private and public developers in the PRC, as well as developers from Hong Kong. Some of them may have greater marketing, financial, technical or other resources than us and greater economies of scale, broader name recognition and more established relationships in the market. In recent years, a large number of property developers have undertaken property development and investment projects, particularly in Guangzhou and other cities where we operate. Competition among property developers may cause increases in land premiums and raw material costs, shortages in quality construction contractors, surpluses in property supply leading to decreased property prices, delays in the issuance of government approvals and permits, and higher costs to attract or retain talented employees.

In addition, the property markets in Guangzhou and elsewhere in the PRC are rapidly changing. Macroeconomic measures have recently been adopted by the PRC government in an attempt to slow the rapid growth of the PRC's economy and deter investment in fixed assets, including real estate assets. If we cannot respond to changes in market conditions in Guangzhou or elsewhere, or changes in customer preferences more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We are exposed to contractual, legal and regulatory risks related to pre-sales

We depend on cash flows from pre-sales of properties as an important source of funding for our property developments. We face risks relating to the pre-sale of properties. For example, we may find ourselves liable to the purchasers for their losses, if we pre-sell units in a property development and fail to complete that development. If we fail to complete a pre-sold property on time, our purchasers may claim compensation for late delivery pursuant to either their contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate their pre-sale contracts and claim for compensation. A purchaser may also terminate his or her contract with us 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 delays in the completion and delivery of

our projects, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant contract. Any termination of the purchase contract as a result of our late delivery of properties will have a material adverse effect on our business, financial condition and results of operations.

Under current PRC laws and regulations and pursuant to land grant contracts, 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. 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 March 16, 2011, the National Development and Reform Commission (“NDRC”) promulgated the Regulation on Price of Commodity Properties (《商品房銷售明碼標價規定》) effective from May 1, 2011. According to the regulation, real estate enterprises are required to make public the price of commodity properties for sale or pre-sale and to make public all the apartments available for sale or pre-sale within a certain time period. Moreover, on September 21, 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Relevant Opinions on Providing the Pre-sale Permit for Commodity Houses” (《關於請提供商品房預售許可有關意見的緊急通知》), asking for opinions on the cancelation of the pre-sale system of commodity residential properties. We cannot assure you that PRC governments will continue to allow pre-sale of properties or will not impose additional or more stringent requirements on pre-sale. In the event that the PRC governments prohibit pre-sale of properties or impose additional or more stringent requirements, the property developers like us may not have sufficient cash flow for property development projects and have liquidity problems. If we do not have sufficient cash flow from pre-sale to fund our future liquidity, pay our trade and bills payables and repay the outstanding debt obligations when they become due, we may need to significantly increase external borrowings or secure other external financing. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, prospects, financial condition and results of operations may be materially and adversely affected. 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. This, in turn, could have an adverse effect on our business, cash flow results of operations and financial condition.

The total GFA of some of our developments may exceed the original permitted GFA and the excess GFA is subject to governmental approval and payment of 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 the development, and as a consequence, we would not be in a position to deliver individual units to purchasers or to

recognize the related pre-sale proceeds as revenue. Moreover, excess GFA requires governmental approval, and the payment of additional land premium. 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 for that development, or that the authorities will not 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 pay for any corrective action that may be required in a timely manner, or at all. Any of these circumstances may materially and adversely affect our reputation, business, results of operations and financial condition.

The terms on which mortgage loans are available, if at all, may affect our sales

Substantially all of the purchasers of our properties rely on mortgages to finance their purchases. An increase in interest rates may significantly increase the cost of mortgage financing and affect the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers.

The PRC government has enacted various laws and regulations governing terms of mortgage financing for our customers, including minimum down payment requirements, minimum mortgage loan interest rates, limitations on pre-sales, maximum mortgage term lengths, the suspension of mortgage loans to certain investors, and limits on how many houses a household can buy. See “Regulations—The Land System of The PRC—Real Estate Loans.” As a result of the foregoing factors, PRC banks have generally tightened mortgage lending since 2013, which had affected demand in the property market in general. If the availability or attractiveness of mortgage financing is further reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be adversely affected.

In line with industry practice, we provide guarantees to banks for mortgages they offer to our purchasers up until we complete the relevant property and the individual property ownership certificates with respect to the relevant properties are issued to our purchasers and the mortgage registrations for the relevant properties have been completed. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and the banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of our properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of our properties, which would materially and adversely affect our cash flow, financial condition and results of operations.

Potential liability for environmental damages could result in substantial cost increases

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given project development site vary according to the site’s location, the site’s environmental condition, the present and former uses of the site and the nature and former uses of adjoining properties. Compliance with

environmental laws and regulations may result in delays in development, substantial costs and may prohibit or severely restrict project development activity in environmentally sensitive regions or areas. Under PRC laws and regulations, we are required to submit an environmental impact assessment report to the relevant governmental authorities for approval before commencing construction of any project. Although the environmental inspection conducted by the relevant PRC environmental protection agencies to date have not revealed any environmental violations that we believe would have a material adverse effect on our business, results of operations or financial condition, there may be potential material environmental liabilities of which we are unaware. In addition, our operations could result in environmental liabilities or our contractors could violate environmental laws and regulations in their operations that may be attributed to us. For more information, see “Business—Environmental and Safety Matters” in this offering memorandum.

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

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

Pursuant to 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》) issued on March 23, 2016 and implemented on May 1, 2016 (“Circular 36”) by the Ministry of Finance and SAT, effective from May 1, 2016, PRC tax authorities have started imposing value added tax 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 value added tax for over 20 years. Since the issuance of Circular 36, the Ministry of Finance and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of value added tax on revenues from construction, real estate, financial services and lifestyle services. The value added tax 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 value added tax rate for the sale of self-developed real estate projects was increased from 5% to 11%, which was reduced to 10% on May 1, 2018 according to a notice jointly issued by MOF and SAT in April 2018 and has been further reduced to 9% (current value added tax rate) from April 1, 2019 according to a joint notice issued by MOF, SAT and the General Administration of Customs in March 2019. Unlike business tax, the value added tax 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, details of concrete measures are still being formulated in accordance with Circular 36. We are still in the process of assessing the comprehensive impact of the new value added tax regime on our tax burden, our revenues and results of operations, which remains uncertain.

Risks Relating to China

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects

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

- the amount and degree of the PRC government involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy that the government believed to be overheating, including the real estate industry. These measures have included restricting foreign investment in certain sectors of the real estate industry, raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits and raising the thresholds and minimum loan interest rates for residential mortgages. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business and financial condition.

In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed the outlook from stable to negative, citing concerns on the China's rising levels of debt and expectations of slower economic growth. In September 2017, S&P Global Ratings downgraded China's sovereign credit rating for the first time since 1999, citing similar concerns. The full impact of such actions by international rating agencies 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, which may have a material and adverse impact on our business and financial condition.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange (“SAFE”) by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC property market. In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and denominated in Renminbi. The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and PRC government policies, as well as the supply and demand in the local and international markets. From 1999 until 2005, the conversion of the Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by PBOC in light of the previous day’s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of the Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, PBOC revalued the Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of the Renminbi appreciated by more than 2% on that day. Since then, PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from 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 allowed the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. In June 2010, PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase flexibility and on April 16, 2012 the band was expanded to 1.0% and further revised to 2.0% on

March 17, 2014. These changes in currency policy resulted in the Renminbi significantly appreciating against the U.S. dollar. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. 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 Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our U.S. dollar denominated indebtedness and other obligations. Since our income and profits are denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency. As of December 31, 2020, our outstanding interest-bearing bank and other borrowings denominated in foreign currencies was RMB30,322.4 million (US\$4,647.1 million), representing approximately 38.9% of our total outstanding interest-bearing bank and other borrowings. As of December 31, 2020, we did not enter into any hedging agreements to manage our exposure to foreign exchange rate risk.

We may incur additional cost to comply with the new policy regarding the tax bureau to collect social insurance and may be required by the tax bureau to make additional social insurance contributions

On July 20, 2018, China's Central Committee and the State Council released the Reform Plan on the National and Local Taxation Collection and Management System (the "Taxation Collection Reform Plan"). Set to take effect on January 1, 2019, the plan places the responsibility of calculating and collecting social insurance premiums solely with the tax bureau, which is expected to improve social insurance compliance since the tax bureau is better resourced to monitor and collect contributions. The impact of the newly adopted Taxation Collection Reform Plan is still uncertain. We may incur additional cost to comply with this new plan and may be required by the tax bureau to make additional social insurance contributions, which may have a material adverse impact on our business, financial condition and results of operations.

Our income tax obligations may increase, dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be subject to PRC tax

In March 2007, the National People's Congress of the PRC and its Standing Committee (the "NPC" or the "National People's Congress") enacted the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (as supplemented by its implementation regulations (《中華人民共和國企業所得稅法實施條例》), the "EIT Law"), which took effect on January 1, 2008. The EIT Law imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions.

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The EIT Law, effective January 1, 2008, provides that any dividend payment to foreign enterprise investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, a company incorporated in Hong Kong will be subject to

PRC withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary. However, according to a PRC State Administration of Taxation (“SAT”) circular dated October 27, 2009, tax treaty benefits will be denied with respect to “conduit” or shell companies without business substance. Although we take the position that dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries, which hold the equity interests in our PRC subsidiaries, will be subject to the reduced 5% PRC tax rate, the PRC tax authorities may challenge our position.

In addition, under the EIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The EIT Law provides that “de facto management body” of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. Since a majority of the members of our management team are, and may continue to be, located in China, we may be considered a PRC resident enterprise and therefore subject to PRC enterprise income tax at the rate of 25% on our worldwide income (possibly excluding dividends from our PRC subsidiaries). If we or any of our non-PRC subsidiaries is a PRC resident enterprise under the EIT Law, our profitability and cash flow may be adversely affected. Although it is unclear under PRC tax law whether we have a “de facto management body” located in China for PRC tax purposes, we currently intend to take the position that we are not a PRC resident enterprise, but there can be no assurance that the PRC tax authorities will accept our position.

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

Under the EIT Law, if our Company is determined to be a PRC resident enterprise, the interest paid on the Notes may be considered to be sourced within China. In that case, PRC income tax at the rate of 10% would be withheld from interest paid on the Notes to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. Furthermore, if we are considered a PRC resident enterprise and the relevant PRC tax authorities consider interest we pay with respect to the Notes, or any gains realized from the transfer of Notes, to be income derived from sources within the PRC, such interest or gains earned by non-resident individuals may be subject to PRC income tax (which in the case of interest, may be withheld by us) at a rate of 20%. It is uncertain whether we will be considered a PRC “resident enterprise” and whether in that case the interest payable to our foreign investors or the gain our foreign investors may realize from the transfer of our Notes would be treated as income sourced within China and subject to PRC tax. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC tax authorities will accept our position on such issue. If we are required under the EIT Law to withhold PRC income tax on our interest payable to our non-resident noteholders we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of making payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of

your investment in our Notes may be materially and adversely affected. Prospective holders should consult their tax advisers as to whether they may be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas if we are considered a PRC “resident enterprise.”

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations

In October 2005, SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《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》) (“Notice 75”) which became effective on November 1, 2005. On July 4, 2014, Notice 75 was superseded by the Notice Regarding Certain Administrative Measures on Offshore Investing and Financing and Round-trip Investment by PRC Residents through Special Purpose Vehicles (《關於境內居民通過境外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》) (“Notice 37”) issued by SAFE. Notice 37 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before making capital contribution to any company outside of China (an “offshore SPV”) with onshore or offshore assets and equity interests legally owned by PRC residents. In addition, any individual PRC resident who is the shareholder of an offshore SPV is required to update its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with change of basic information of the offshore SPV, such as its company name, business term, shareholding by individual PRC resident, merger, division and, with respect to the individual PRC resident, in case of any increase or decrease of capital in the offshore SPV, transfer of shares or swap of shares by the individual PRC resident. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of such offshore SPV, including increase in registered capital of, payment of dividends and other distributions to, and capital inflows from, the offshore SPV. Failure to comply with Notice 37 may also subject relevant PRC residents or the PRC subsidiaries of such offshore SPV to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

If our beneficial owners are unable or fail to comply with such procedures, our PRC subsidiaries may not be able to remit foreign currency payment out of China, which would affect our ability to service our offshore indebtedness, including the Notes, and may materially and adversely affect our business operations.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection

available to you may be limited. 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 the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. We have also been advised by our PRC legal adviser, Jingtian & Gongcheng, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or their directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or their directors or officers predicated upon the U.S. federal or state securities laws. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits and other statutory and contractual rights and interests.

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

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

For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. We had three projects located in Chengdu, approximately 92 kilometers from the earthquake's epicenter in Wenchuan County, Sichuan Province. Based on our investigation and site inspections, our properties in Sichuan Province did not suffer any material damage or loss as a result of the earthquake. However, earthquakes with such magnitude may adversely affect our ability to complete and sell or lease our properties as scheduled or cause material damage or loss to our properties.

In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Several cities in China where we have land bank and operations were under a lockdown and have imposed travel restrictions in an effort to curb the spread of the highly infectious coronavirus. As a result, sales offices and construction of our development projects were temporarily shut down. Moreover, supply of our raw materials and productivity of our employees may be adversely affected. As a result, the completion of our projects may be delayed and sales might be lower than expected, which might in turn result in substantial increase in our development costs, late delivery of properties and/or otherwise adversely affect our profitability and cash flows. Further, customers who have previously entered into contracts to purchase properties may default on their purchase contracts if the economic situation further deteriorates as a result of the epidemic. In addition, the COVID-19 outbreak poses risks to the

wellbeing of our employees and the safety of our workplace, which may materially and adversely affect our business operation. Our ability to adequately staff, manage and/or maintain daily operations may be adversely affected if the outbreak continues or further deteriorates. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will exist and the extent to which we may be affected. Furthermore, our properties or facilities may be required to be suspended or quarantined, if there were clusters for the COVID-19 cases in our properties or facilities or governmental ordinance to contain the outbreaks. Any of these circumstances will result in material adverse impact on our business, financial condition, results of operation, performance and prospects. A recurrence of SARS, COVID-19 epidemic or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales and marketing, which in turn may adversely affect our financial condition and results of operations.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this offering memorandum

Facts, forecasts and other statistics in this offering memorandum relating to China, the PRC economy, the PRC real estate industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside China. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Joint Lead Managers or any of our or their affiliates or advisors (including legal advisors), or other participants in this offering and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this offering memorandum may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this offering memorandum.

Risks Relating to the Notes

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

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries and may be held by certain JV Subsidiary Guarantors in the future. The Subsidiary Guarantors do not and the JV Subsidiary Guarantors (if any) may not have material operations. The Notes, however, will not be guaranteed by any of our current or future PRC subsidiaries, or by certain other Non-Guarantor Subsidiaries, and the shares of such Non-Guarantor Subsidiaries will not be pledged for the benefit of the holders of the Notes. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary

Guarantees (if any), as the case may be, will depend upon our receipt of principal and interest payments on intercompany loans and distributions of dividends from our operating subsidiaries in the PRC.

Creditors, including trade creditors, of our PRC subsidiaries and other Non-Guarantor Subsidiaries and any holders of preferred shares in such entities will have a claim on such Non-Guarantor Subsidiaries' assets prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including the holders of the Notes. As of December 31, 2020, our Non-Guarantor Subsidiaries had total borrowings in the amount of RMB37,474.4 million (US\$5,743.2 million), capital commitments of approximately RMB9,492.4 million (US\$1,454.8 million) and contingent liabilities of approximately RMB53,211.4 million (US\$8,155.0 million) arising from guarantees. The Notes and our other senior notes permit our subsidiaries to incur additional indebtedness or issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) will have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of the holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantor that sells or issues more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party may be able to release the pledge of the Capital Stock by us or any Subsidiary Guarantor over the shares of such Subsidiary Guarantor, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of our total assets.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee (a "JV Subsidiary Guarantee") following the sale or issuance to a third party of a no less than 20% equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year-end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

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

In certain circumstances, the Trustee may request holders of the Notes to provide an indemnity and/or security and/or pre-funding to its satisfaction before it will take actions and/or steps and/or institutes proceedings on their behalf. The Trustee will not be obliged to take any such actions and/or steps and/or institutes proceedings if not indemnified and/or secured and/or pre-funded to its satisfaction. 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. Further, the Trustee may not be able to take actions and/or steps and/or institutes proceedings, notwithstanding the provision of an indemnity or security and/or pre-funding to it, in breach of the terms of the Indenture (as

subsequently supplemented and/or amended) governing the Notes or in circumstances where there is uncertainty or dispute as to such actions' compliance with applicable laws and regulations. In such circumstances, to the extent permitted by any applicable agreements or applicable laws, it will be for the holders of the Notes to take such actions and/or steps and/or institutes proceedings directly.

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 have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2020, our total interest-bearing bank and other borrowings was RMB77,860.6 million (US\$11,932.7 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. Although the indentures governing the Notes and other senior notes restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. Under the Indenture and the indentures governing the Existing Notes, our ability to incur additional debt is subject to limitation on indebtedness and preferred stock covenant. 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 Net Income (which is a significant component of Consolidated EBITDA) for the Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of Consolidated Net Income. In addition, because our definition of Consolidated Interest Expense for the Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense is actually paid by us), our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest

expense. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. If our non-guarantor subsidiaries (including our PRC subsidiaries) incur additional debt, the ratings assigned to the Notes by any rating agency may be adversely affected, which could adversely affect the market price of the Notes. See “—The ratings assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future.”

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 cannot assure you that we will be able to 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.

In addition, the indentures governing the Notes and the Existing Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See “Description of Material Indebtedness and Other Obligations.” Such restrictions in such indentures and 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.

We may in the future designate certain subsidiaries as Unrestricted Subsidiaries under the Indenture, which will not be subject to various covenants under the Indenture; and we and our Restricted Subsidiaries may be able to make dividend payment in shares of our Unrestricted Subsidiaries under the Indenture

We have the flexibility under the terms of the Notes to designate any subsidiary in the Restructuring Group (as defined under “Description of the Notes—Definitions”) as Unrestricted Subsidiaries, subject to certain conditions. The effects of designation of an entity as an Unrestricted Subsidiary include, but are not limited to:

- the business, assets and liabilities of such entity will no longer be part of the credit underlying the Notes;
- such entity will not be subject to the restrictive covenants applicable to Restricted Subsidiaries under the Indenture;
- as applicable, the Subsidiary Guarantees of such entity may be released, and the shares of such entity previously pledged to the collateral agent or the trustee for the benefit of the holders of the Notes may be released; and

- interest expenses on Indebtedness (as defined in the Indenture) of such entity will not be included in the calculation of our Consolidated Interest Expense (as defined under “Description of the Notes—Definitions”), other than such interest expenses on indebtedness that is guaranteed and has become payable by the Company or a Restricted Subsidiary.

As a result of any such designation, the value of assets subject to the restrictive covenants under the Indenture may decrease and the market pricing and trading of the Notes may be materially affected. In addition, we will be able to pay dividends or make distributions on or with respect to our or our Restricted Subsidiaries’ capital stock in shares of capital stock of any Unrestricted Subsidiary, as long as there is no default at the time of, and after giving effect to, such dividend payment or distribution under the Indenture. Accordingly, you are cautioned as to our ability to designate further Unrestricted Subsidiaries subject to the conditions set forth in the Indenture.

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

If we are unable to comply with the restrictions and covenants in our debt agreements or the indentures governing our senior notes, there could be a default under the terms of these agreements or such indentures, in which event 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 such agreements. Furthermore, some of our debt agreements, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of the debt, or result in a default under our other debt agreements. If any of these events occur, we cannot assure you that our assets and cash flow will be sufficient to repay in full all of our indebtedness, or that we will be able to find alternative financing on terms that are favorable or acceptable to us, or at all.

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, among others, 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 their respective articles of association, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such securities would not be available to us to make payments on the Notes. Further, certain loan agreements in relation to project loans obtained by our PRC subsidiaries from PRC lender banks contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. These restrictions could have a negative impact on the calculation of our EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be. See “Description of Material Indebtedness and Other Obligations.”

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are 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 their boards of directors. In practice, our PRC project companies may pay dividends only after they have completed not only the project development (at least the development of a phase or a stand-alone tower or building) and the revenue recognition but also the required government tax clearance and foreign exchange procedures. 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 an overseas parent company is incorporated which specifically exempts or reduces such withholding tax. Pursuant to a double-taxation treaty between Hong Kong and the PRC, if a non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. As a result of such 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 shareholder loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loans. PRC regulations require approval by SAFE before any of our non-PRC subsidiaries may make shareholder loans in foreign currencies to our PRC subsidiaries and require that such loans be registered with 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 SAFE, as well as any other documents that SAFE or its local branch 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, including, among others, those under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

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

Depending on land prices, sizes of projects and other factors, we may from time to time consider developing property developments jointly with other PRC property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority-owned joint ventures, these restrictions are subject to important exceptions and qualifications including, among others, that we may, subject to certain conditions, make investments in any Unrestricted Subsidiaries and minority-owned joint ventures primarily engaged in permitted business up to an aggregate amount equal to 25% of our

total assets (of which, an aggregate amount equal to 5% of our total assets would not even be required to satisfy certain financial ratio requirement). See paragraph (16) of the definition of “Permitted Investment” in “Description of the Notes.”

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

We pay dividends to our shareholders or redeem our common stock from time to time. Under the Indenture and the indentures governing the Existing Notes, any such dividend payment or redemption will be a “Restricted Payment”, which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio. However, such restriction is subject to important exceptions and qualifications. Under the terms of the Notes, we may pay dividends on our common stock or redeem our common stock in an aggregate amount up to 50% of our consolidated profit for the year without satisfying the Fixed Charge Coverage Ratio. With such an exception, we may be able pay substantial amount of dividends or redeem a substantial amount of our common stock even when we are highly leveraged, which may materially and adversely affect our ability to service our indebtedness, including the Notes.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries the proceeds from this offering in the form of a loan, which could impair our ability to make timely payments under the Notes

On May 23, 2007, the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC (關於進一步加強規範外商直接投資房地產業審批和監管的通知), which was amended in October 2015. On April 28, 2013, SAFE issued the Notice Regarding Promulgation of Administrative Measures on Foreign Debt Registration (國家外匯管理局關於發布〈外債登記管理辦法〉的通知), which became effective on May 13, 2013 and amended in May 2015 and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (外債登記管理操作指引). These notices indicate that SAFE would not process any foreign debt registration or settlement of foreign exchange for foreign debt for foreign-invested enterprises in the real estate sector that was approved by the local office of MOFCOM and registered with MOFCOM after June 1, 2007. Therefore, the proceeds of any offshore offering or other offshore financing that will be used for land acquisitions and developments in China or otherwise deployed into our business in the PRC can only be transferred to our PRC subsidiaries as equity investments and not as loans. Without having the flexibility to transfer funds to PRC subsidiaries as loans, there can be no assurance that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date or any redemption date to pay the principal of the outstanding Notes.

Fluctuations in the value of the Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and is denominated in Renminbi. The value of the Renminbi depends, to a large extent, on PRC domestic and international economic, financial and political developments and PRC government policies, as well as the supply and demand in the local and international markets. From 1999 to 2005, the conversion of the Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by PBOC in light of the previous day’s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of the Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005,

PBOC revalued the Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of the Renminbi appreciated by more than 2% on that day. Since then, PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from 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. In June 2010, PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase flexibility and on April 16, 2012 the band was expanded to 1.0% and further revised to 2.0% on March 17, 2014. On August 11, 2015, in order to improve the central parity quotations of the Renminbi against the U.S. dollar, the PBOC authorised market-makers to provide central parity quotations to the China Foreign Exchange Trading Center every day before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following this announcement, the Renminbi depreciated against the U.S. dollar significantly. Throughout 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. These changes in currency policy resulted in the Renminbi significantly appreciating against the U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation in the value of the Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency and could adversely affect our financial condition and results of operations because of our substantial U.S. dollar-denominated indebtedness and other obligations. As of December 31, 2020, our outstanding interest-bearing bank and other borrowings denominated in foreign currencies was RMB30,322.4 million (US\$4,647.1 million). As of December 31, 2020, we had not entered into foreign exchange capped forward contracts and foreign currency swap transactions with financial institutions to hedge the foreign exchange risk between Hong Kong dollars and Renminbi. We may enter into hedging agreements in the future to manage our exposure to foreign exchange rate risk as appropriate. There is no assurance that such agreements could effectively hedge our foreign exchange rate risk.

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 offering 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. The Initial Purchasers and its respective affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash or other assets as permitted under the Indenture. If we are unable to provide such collateral, it may 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 present or future obligations and commitments.

Notes are subject to optional redemption by us

As set forth in “Description of the Notes—Optional Redemption,” the Notes may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a Noteholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the Noteholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

We may be able to amend the date and price of optional redemption with the consent of holders of not less than 75% in aggregate principal amount of the outstanding Notes

Under the terms of the Notes, we may amend the redemption date and/or price of any optional redemption with the consent of holders of 75% in aggregate principal amount of the outstanding Notes. This is quite different from terms of senior notes of other similarly situated PRC issuers. If we obtain consent from holders of 75% or more in aggregate principal amount of the outstanding Notes, the amended redemption date and/or price will be binding on all holders of the Notes, including those who have not validly consented to the amendments proposed by us. The optional redemption feature of the Notes may limit the market value of Notes. Potential investors should consider reinvestment risk in light of other investments available at that time. See also “—Notes are subject to optional redemption by us.” Accordingly, potential investors are cautioned as to the potential adverse impact on market value of the Notes and the reinvestment risk in the future due to our ability to amend the redemption date and/or price of any optional redemption under the Notes.

In addition, if any holder owns more than 50% in aggregate principal amount of the outstanding Notes, such holder may approve certain amendments to the terms of the Notes, the Indenture or the Security Documents. See “Description of the Notes—Amendments and Waivers—Amendments with Consent of Holders.”

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

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

The source of funding for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make such purchases. Our failure to make the offer to purchase or purchase the outstanding Notes and the Existing Notes would constitute an Event of Default under such 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 is accelerated, we may not have sufficient funds to purchase the Notes and the Existing Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, 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 body of case law, albeit limited, interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets, may be uncertain.

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

In the event we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes—Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in tax law, or as a result of any change in an official position or the stating of an official position regarding the interpretation of tax law, in either case that results in our being required to withhold tax on interest payments due to our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The insolvency laws of the Cayman Islands, China and other local insolvency laws applicable to us may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes may be familiar

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

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch or a designated foreign exchange bank for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. Although under a regulation issued on July 10, 2007, we can no longer make shareholder loans to our PRC subsidiaries, we have in the past made shareholder loans to certain of our PRC subsidiaries to finance the property developments and land acquisitions that they are currently undertaking. If any of our PRC subsidiaries 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 and other debts.

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

The terms of the Notes and the Existing Notes and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of certain of our Restricted Subsidiaries, to:

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

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

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

The Notes are a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes. We cannot assure you that we will obtain or be able to maintain a listing on the Hong Kong Stock Exchange, or that if listed, a liquid trading market will develop 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. In addition, the Notes may be held by a limited number of investors which may affect the liquidity of the Notes. We have been advised that the Joint Lead Managers intend to make a market in the Notes, but the Joint Lead Managers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the 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 which are not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

We have been assigned a long-term corporate credit rating of B1 by Moody’s Investors Service with a stable outlook, B+ by Standard and Poor’s Rating Services with a stable outlook and a long-term corporate rating of BB- by Fitch Ratings with a stable outlook. The Notes are expected to be rated BB- by Fitch Ratings. Such 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. 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 the ratings will be confirmed or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes and our corporate ratings may adversely affect the market price of the Notes.

Certain transactions that constitute “connected transactions” under the Listing Rules on the Hong Kong Stock Exchange will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant

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

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

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

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals 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, our financial statements are prepared and presented in accordance with HKFRS, which may differ in certain significant respects from generally accepted accounting principles in other jurisdictions which may in turn be material to the financial information contained in this offering memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and any other generally accepted accounting principles 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 Hong Kong Stock Exchange, which standards may be different from those applicable to debt securities listed in certain other countries

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

The Notes may not be a suitable investment for all investors seeking exposure to green assets

We have developed our Green Finance Framework and intend to adopt certain obligations with respect to the issue of Green Bonds as described in the section headed “Notes Being Issued as Green Bonds.” We intend to issue Green Bonds to fund new and existing projects and businesses with environmental benefits in alignment with the Green Bond Principles, 2018. We cannot guarantee that

we will be able to comply with the obligations as set out in the Green Finance Framework. However, it will not be an event of default under the terms of the Notes if we fail to comply with such obligations. Such failure may affect the value of the Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets. Therefore, the Notes may not be a suitable investment for all investors seeking exposure to green assets.

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

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes 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 notes representing the Notes and credited by such participants to indirect participants. After payment to the common depository for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream, and 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 a holder of 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.

Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Therefore, almost all of our revenue and income (as shown in our consolidated financial information included elsewhere in this offering memorandum) are attributed to our PRC operating subsidiaries and any contribution from direct operations of the Subsidiary Guarantors (or JV Subsidiary Guarantors) are immaterial. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain of our offshore subsidiaries upon issuance. In addition, certain of our future offshore

subsidiaries will not be required to guarantee the Notes if the consolidated assets of all our offshore subsidiaries that do not guarantee the Notes (other than Exempted Subsidiaries and Listed Subsidiaries) do not exceed 20% of our total assets. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of such Non-Guarantor Subsidiaries. See “Description of the Notes—The Subsidiary Guarantees and JV Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC subsidiaries.

The initial Subsidiary Guarantors which will guarantee the Notes do not have significant operations. In addition, the Subsidiary Guarantors also guarantee our obligations under the Existing Notes. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our obligations under Notes and the Existing Notes if we are unable to do so.

Under the terms of the Notes, a Subsidiary Guarantor may be able to release its Subsidiary Guarantee if it sells or issues no less than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of our total assets.

In addition, a Subsidiary Guarantee may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of certain minority interest in such subsidiary (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year-end of the Company. See “—Risks Relating to the Notes—We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.”

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

Provided the Shared Security Agent is, to the extent requested, indemnified and/or secured in respect of actions to be taken, it is required to take action to enforce the Collateral in accordance with the instructions of a secured creditor or, in the event that there are conflicts between instructions from different secured creditors, the instruction from a majority of the secured creditors, given under the Intercreditor Agreement, which instruction may not be in the best interests of the holders of the Notes. Any enforcement action taken by the Shared Security Agent will adversely affect our entitlement to receive proceeds from the Collateral, which will, in turn, have an adverse impact on the Company’s ability to fulfill its payment obligations under the Notes. Further, our ability to pay under the Subsidiary Guarantees will be adversely affected.

The ability of the holders of the Notes to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Shared Security Agent is permitted to take enforcement actions. If an Event of Default occurs under the Notes, any secured party under the Intercreditor Agreement may decide whether to take any enforcement action and may thereafter, through the Trustee, subject to the satisfaction of the conditions under the Intercreditor Agreement, instruct the Shared Security Agent to take such enforcement action. In addition, by virtue of the instructions given to the Shared Security Agent described above, actions may be taken in respect of the Collateral that may be adverse to you. In such event, the only remedy available to the holders of the Notes will be to sue for payment on the Notes, the Subsidiary Guarantees, the JV Guarantees and the Collateral. For a description on the Intercreditor Agreement, see “Description of the Notes—Security—Intercreditor Agreement.”

The Shared Security Agent, acting in its capacity as such, will have such duties with respect to the Collateral pledged, charged, assigned or granted pursuant to the Intercreditor Agreement and the Security Documents as are set forth in the Intercreditor Agreement and as Trustee in respect of the Notes. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents or the Intercreditor Agreement and the underlying indentures that are in conflict with the interests of the holders of the Notes. The Shared Security 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, unless the Shared Security Agent shall have received written instructions and, to the extent requested, appropriate indemnification and/or security in respect of actions to be taken.

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

Security over the Collateral for the obligations of the Company under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Shared Security Agent on behalf of the Trustee. As a consequence, holders of the Notes will not have direct security and will not be entitled to take enforcement action in respect of the security for the Notes, except through the Shared Security Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

In addition, the Intercreditor Agreement provides that the Collateral will be shared equally and ratably with the holders of the Existing Notes and any other creditors with respect to Permitted pari passu Secured Indebtedness. For a further discussion of the Intercreditor Agreement, see “Description of the Notes—Collateral—Intercreditor Agreement.” Because the Collateral will be shared equally and ratably with creditors under other financings, the full value of the Collateral will not be available to satisfy claims of the holders of the Notes.

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

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

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

For Subsidiary Guarantors incorporated in the BVI:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place, and irrespective of insolvency);
- put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor;
- in the case of ii. and iii., a guarantee will be only be voidable if (1) it was entered into at a time when the guarantor was insolvent, or if it became insolvent as a consequence of doing so where insolvent in this context under BVI law means that the guarantor is unable to pay its debts as they fall due and (2) the guarantee was given within the six month period preceding the commencement of liquidation, or, if the guarantor and beneficiary are connected entities, two years.

For Subsidiary Guarantors incorporated in other jurisdictions:

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

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

then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

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

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

The pledge of certain Collateral may in some circumstances be voidable

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands or the BVI at any time within six months of the creation of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors or, where applicable, certain JV Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under “—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair their enforceability.” If the pledges of the Collateral are voided for any reason, holders of the Notes will have only unsecured claims against us.

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the Existing Notes and other pari passu secured indebtedness and the pledge of certain Collateral may be released under certain circumstances

The Collateral will consist only of the capital stock of the initial Subsidiary Guarantors other than Market Network Limited and may in the future include our proportional interest in certain JV Subsidiary Guarantors. The security interest in respect of certain 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 pledged as additional Collateral.

The ability of the Shared Security Agent, on behalf of the Trustee, to foreclose on the Collateral, upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Shared Security Agent, the Trustee or holders of the Notes will be able to enforce the security interest. In addition, although the Trustee may instruct the Shared Security Agent to foreclose the Collateral upon the occurrence of an Event of Default that is continuing, such instruction may be overruled by a contrary instruction to the Shared Security Agent from holders of more than 50% of the indebtedness that is subject to the Intercreditor Agreement. See “Description of Material Indebtedness and Other Obligations” and “Description of the Notes—Security—Intercreditor Agreement.” Since the holders of the Notes may not constitute a majority of the secured creditors, any instructions from the Trustee to the Shared Security Agent may be overruled by a contrary instruction from a group of other secured creditors that may not have interests aligned with the holders of the Notes.

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

The Collateral will be shared on a pari passu basis by the holders of the Notes, the holders of the Existing Notes, lenders and finance parties under the SCB 2018 Facility, lenders and finance parties under the SCB 2020 Facility and any other creditors with respect to Permitted pari passu Secured Indebtedness. Accordingly, in the event of a default on the Notes, the other Permitted pari passu Secured Indebtedness or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds will be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes, and the other secured indebtedness and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes, and the other secured indebtedness and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes, other Permitted pari passu Secured Indebtedness and the other secured indebtedness and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes.

Under the terms of the Notes, a Subsidiary Guarantor that sells or issues more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party may be able to release the pledge of the Capital Stock by us or any Subsidiary Guarantor over the shares of such Subsidiary Guarantor, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of our total assets. In addition, the Collateral may be released at any time upon repayment of all our outstanding Indebtedness secured by the Collateral (other than the Notes and the Subsidiary Guarantees). Accordingly, if we repay all our outstanding Indebtedness secured by the Collateral (other than the Notes and the Subsidiary Guarantees) the Collateral may be released and holder of the Notes will lose the benefit of a lien on the Collateral.

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

USE OF PROCEEDS

The Company intends to use the net proceeds to refinance the Company's existing medium to long term offshore indebtedness that are due within one year and in accordance with our Green Finance Framework.

NOTES BEING ISSUED AS GREEN BONDS

PURPOSE

Our Green Finance Framework (the “GFF”) has been developed to demonstrate how we will enter into Green Bond transactions to fund new and existing projects and businesses with environmental benefits in alignment with the ICMA Green Bond Principles 2018 (GBP). Our GFF is made public on our website.

ASSERTIONS FROM MANAGEMENT

For each Green Bond issued, we assert that it will adopt: (1) use of proceeds; (2) process for project evaluation and selection; (3) management of proceeds, and (4) reporting, as set out in our GBF.

1. Use of Proceeds

The net proceeds of each Green Bond will be used to fund or refinance, in whole in part, new or existing “Eligible Green Projects”. “Eligible Green Projects” refer to projects that provide clear environmental and sustainability benefits recognized by the GBP.

“**Eligible Green Projects**” refers to projects that meet one or more of the following categories of eligibility as recognized in the GBP:

- a. Green Buildings: projects involving at least one of the following features:
 - Development, renovation, maintenance, operations or acquisitions of buildings, that have received or are expected to receive:
 - Chinese Green Building Evaluation Label with a minimum certification level of 2 stars
 - LEED with a minimum certification of Gold
 - BREEAM with a minimum certification of Excellent
 - Any other green building certification that is an equivalent standard of the above
 - Building renovation with energy savings of at least 30% in comparison to the baseline performance of the building prior the renovation
- b. Renewable Energy: projects which develop solar and energy storage technologies, including, but not limited to, solar photovoltaic energy systems, solar sensor water system and solar water heating system
- c. Energy Efficiency: Investments in energy efficient building upgrades or improvements to achieve at least a 15% improvement of the building system performance

- d. **Pollution Prevention and Control:** projects involving at least one of the following features:
 - Waste management aiming to prevent, minimize and/or recycle waste
 - Enforcement of dust control and noise reduction, during construction and/or operation of buildings
- e. **Sustainable Water Management:** projects which construct, develop, install, operate and maintain infrastructure or equipment for collection, treatment, recycling or reuse water, rainwater or wastewater

2. Process for Project Evaluation and Selection

Eligible Green Projects will be selected by the Green Finance Working Group formed by representatives from finance and treasury, investor relations, risk control, and audit departments and relevant business units in accordance to the criteria defined in the Green Finance Framework. Selected Eligible Green Projects will be reviewed on an annual basis.

3. Management of Proceeds

We will track the net proceeds using an internal Green Finance register to keep track of the use of proceeds for each Green Bond and will record the following information:

- a. Type of funding transaction, including details such as issuance date, number of transactions, principal amount of proceeds, repayment or amortization profile, maturity date, interest or coupon and ISIN number.
- b. Allocation of use of proceeds, including amount of proceeds allocated to each Eligible Green Project and the balance of unallocated proceeds.

Pending full allocation, the unallocated net proceeds will be managed in line with our liquidity management policy.

4. Reporting

We will provide information on the allocation of the net proceeds of outstanding Green Bond on our annual or green finance reports. Such information will be provided on an annual basis until all the net proceeds have been fully allocated.

- a. **Allocation Reporting:** We will provide below information for the net proceeds of Green Bonds during the period:
 - Total Amount of outstanding Green Bonds
 - Aggregated amount allocated to respective Eligible Green Projects
 - Balance of unallocated net proceeds

b. **Impact Reporting:** On a best effort basis, we will report on the environmental and social impacts resulting from Eligible Green Projects. Subject to the nature of Eligible Green Projects and availability of information, we aim to include, but not limited to, the following impact indicators:

- **Green Buildings:** Level of certification by building; Energy performance for buildings (in kWh per m² and year); Annual GHG emission avoided (in tCO₂eq); Annual energy savings (in MWh);
- % annual energy efficiency gains relative to an established baseline
- **Renewable Energy:** Renewable energy capacity installed (in MW); Renewable energy generated annually (in MWh); Annual GHG emission avoided (in tCO₂eq)
- **Energy Efficiency:** Annual energy savings (in MWh); Annual GHG emission avoided (in tCO₂eq); % annual energy efficiency gains relative to an established baseline
- **Sustainable Water Management:** Amount of rain water collected and re-used (in m³)

We have engaged Sustainalytics, an independent firm that specializes in rating environmental and corporate governance performance, to provide a Second Party Opinion (“SPO”) on our Green Finance Framework and to confirm the alignment with the GBP. The SPO is available on our website.

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. 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. In June 2010, the PBOC announced that it intended to further reform the RMB exchange rate regime by allowing greater flexibility in the RMB exchange rate, and on April 16, 2012 the band was further expanded to 1% and to 2.0% on March 17, 2014. The PRC government may make further adjustments to the exchange rate system in the future. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the following business day. 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 in Renminbi as set forth in the H.10 statistical release of the Federal Reserve Bank of New York for the periods indicated:

Period	Period end	Noon buying rate		
		Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.9430
2017	6.5063	6.7530	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
July	6.9744	7.0041	7.0703	6.9744
August	6.8647	6.9310	6.9799	6.8647
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November	6.5760	6.6029	6.6899	6.5556
December	6.5250	6.5393	6.5705	6.5208
2021				
January (through January 8, 2021) . . .	6.4750	6.4656	6.4760	6.4550

Source: Federal Reserve H.10 Statistical Release

Note:

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

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK\$7.80 to US\$1.00, or at all.

The following table sets forth the noon buying rate in H.K. dollars as set forth in the H.10 statistical release of the Federal Reserve Bank of New York for the periods indicated:

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
	(HK per US\$1.00)			
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.785
2020				
July	7.7500	7.7509	7.7538	7.7499
August	7.7502	7.7502	7.7506	7.7498
September	7.7500	7.7500	7.7504	7.7499
October	7.7548	7.7503	7.7548	7.7498
November	7.7522	7.7526	7.7552	7.7505
December	7.7534	7.7519	7.7539	7.7505
2021				
January (through January 8, 2021) . . .	7.7555	7.7538	7.7555	7.7532

Source: Federal Reserve H.10 Statistical Release

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our cash and cash equivalents, short-term borrowings and capitalization as of December 31, 2020 on an actual consolidated basis and as adjusted to give effect to the issuance of the Notes in this offering, before deducting the underwriting discounts and commissions and other estimated expenses payable by us. The following table should be read in conjunction with the selected consolidated financial and other data and related notes included elsewhere in this offering memorandum. Except as otherwise disclosed in this offering memorandum, there has been no material change in our borrowings and capitalization since December 31, 2020.

	As of December 31, 2020			
	Actual		As Adjusted	
	RMB	US\$	RMB	US\$
	(in thousands)			
Cash and cash equivalents⁽¹⁾ . . .	40,635,765	6,227,703	43,102,215	6,605,703
Short-term borrowings⁽²⁾⁽³⁾				
Interest-bearing bank and other borrowings	25,255,339	3,870,550	25,255,339	3,870,550
Lease liabilities	209,341	32,083	209,341	32,083
	25,464,680	3,902,633	25,464,680	3,902,633
Long-term borrowings⁽³⁾⁽⁴⁾				
Interest-bearing bank and other borrowings	52,605,276	8,062,111	52,605,276	8,062,111
Lease liabilities	1,567,291	240,198	1,567,291	240,198
Notes to be issued	—	—	2,466,450	378,000
	54,172,567	8,302,309	56,639,017	8,680,309
Equity attributable to owners of the Company	43,534,877	6,672,012	43,534,877	6,672,012
Total capitalization⁽⁵⁾	97,707,444	14,974,321	100,173,894	15,352,321

Notes:

- (1) Cash and cash equivalents exclude restricted cash of RMB3,944.7 million (US\$604.6 million).
- (2) Short-term borrowings include the current portion of long-term bank loans and our senior notes.
- (3) Our borrowings do not include any accrual for capital commitments or contingent liabilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contingent Liabilities” and “—Contractual Obligations.”
- (4) Long-term borrowings exclude the current portion of long-term bank loans and our senior notes.
- (5) Total capitalization includes total long-term borrowings plus total equity attributable to owners of the Company.

We continue to enter into short-term and long-term borrowings, such as domestic corporate bonds and project loans, in the ordinary course of business. Subsequent to December 31, 2020, we issued additional indebtedness, which are not reflected in the table above. In addition, we may from time to time enter into other financing arrangements, such as onshore or offshore bonds, offshore facilities and trust financing arrangements. Such additional indebtedness incurred since December 31, 2020 may be significant compared to the amount of borrowings set forth in the table above.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of profit or loss for the years ended December 31, 2018, 2019, 2020 and the selected consolidated statement of financial position data as of December 31, 2018, 2019, 2020 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, independent certified public accountants, and included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period. Our financial statements 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 the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Statement of Profit or Loss and Other Financial Data⁽¹⁾

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
				(unaudited)
	(in thousands, except percentages)			
CONTINUING OPERATIONS				
Revenue	7,477,471	24,956,261	29,742,063	4,558,171
Cost of sales	<u>(5,026,202)</u>	<u>(17,090,481)</u>	<u>(20,383,239)</u>	<u>(3,123,868)</u>
Gross profit	2,451,269	7,865,780	9,358,824	1,434,303
Other income and gains, net	2,703,427	2,858,916	1,628,096	249,517
Selling and marketing expenses	(532,080)	(1,007,351)	(1,222,410)	(187,343)
Administrative expenses	(1,313,835)	(1,726,064)	(1,560,784)	(239,201)
Other operating expenses, net	(1,727)	(4,456)	(2,981)	(457)
Fair value gains on investment properties, net	1,714,657	3,716,461	415,157	63,626
Finance costs	(1,070,059)	(1,531,336)	(1,034,243)	(158,505)
Share of profits and losses of:				
Associates	(279)	513,706	354,669	54,355
Joint ventures	<u>1,439,857</u>	<u>2,933,397</u>	<u>2,126,580</u>	<u>325,913</u>
Profit before tax from continuing operations	5,391,230	13,619,053	10,062,908	1,542,208
Income tax expenses	<u>(1,236,396)</u>	<u>(3,562,969)</u>	<u>(3,397,779)</u>	<u>(520,732)</u>
Profit for the year from continuing operations	<u>4,154,834</u>	<u>10,056,084</u>	<u>6,665,129</u>	<u>1,021,476</u>
DISCONTINUED OPERATION				
Profit for the year from a discontinued operation	—	—	236,180	36,196
Profit for the year	<u>4,154,834</u>	<u>10,056,084</u>	<u>6,901,309</u>	<u>1,057,672</u>
OTHER FINANCIAL DATA				
EBITDA ⁽²⁾	4,771,986	10,982,106	12,648,543	1,938,474
EBITDA margin ⁽³⁾	63.8%	44.0%	42.5%	42.5%

Notes:

- (1) On October 30, 2020, in connection with the listing of KWG Living Group Holdings Limited (“KWG Living”), all the issued share capital of KWG Living held by us was distributed to our shareholders. Since then, we did not retain any interest in the issued share capital of KWG Living and KWG Living became a fellow subsidiary of us. The operating results of KWG Living and its subsidiaries (collectively KWG Living Group) before the spin-off of KWG Living have been presented as a discontinued operation (the “Discontinued Operation”) in the consolidated statement of profit or loss for the year ended December 31, 2020 since it represented a separate major line of business. Therefore, the accounts of the consolidated statement of profit or loss of our Group for the year ended December 31, 2020 represented our results from the continuing operations and the Discontinued Operation, respectively. The comparative consolidated statements of profit or loss for the years ended December 31, 2018 and 2019 represented our results from the then continuing operations, which were not restated and not comparative with our results for the year ended December 31, 2020.
- (2) EBITDA for any period consists of profit before tax less fair value gains on investment properties, net, other income and gains, net, and share of profits and losses of associates plus finance costs, capitalized interest included in cost of sales, taxes plus depreciation and amortization expenses. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.” EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” for a reconciliation of our profit for the year under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes—Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (3) EBITDA margin is calculated by dividing EBITDA by revenue.

Selected Consolidated Statement of Financial Position Data

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
NON-CURRENT ASSETS				
Property, plant and equipment	5,351,448	6,411,151	7,780,054	1,192,345
Investment properties	17,490,590	27,263,329	29,320,849	4,493,617
Land use rights	1,109,471	1,152,384	2,651,855	406,415
Interests in associates	3,452,270	4,670,441	5,338,823	818,210
Interests in joint ventures	34,715,581	42,996,460	46,872,043	7,183,455
Deferred tax assets	1,642,044	1,872,238	2,432,853	372,851
Other non-current assets	—	211,928	—	—
Total non-current assets	<u>63,761,404</u>	<u>84,577,931</u>	<u>94,396,477</u>	<u>14,466,893</u>
CURRENT ASSETS				
Properties under development	47,302,324	51,760,690	65,613,320	10,055,681
Completed properties held for sale	8,919,658	10,928,887	15,000,367	2,298,907
Trade receivables	957,665	2,166,759	1,914,579	293,422
Prepayments, deposits and other receivables	6,406,463	7,401,565	9,814,732	1,504,174
Due from a joint venture	30,069	30,062	30,004	4,598
Taxes recoverable	482,606	722,780	848,419	130,026
Restricted cash	4,099,329	5,356,141	3,944,716	604,554
Cash and cash equivalents	<u>52,577,643</u>	<u>51,377,864</u>	<u>40,635,765</u>	<u>6,227,703</u>
Total current assets	<u>120,775,757</u>	<u>129,744,748</u>	<u>137,801,902</u>	<u>21,119,065</u>
CURRENT LIABILITIES				
Trade and bills payables	4,077,063	9,072,301	13,165,515	2,017,703
Lease liabilities ⁽¹⁾	—	230,445	209,341	32,083
Other payables and accruals	22,517,471	27,627,042	31,746,296	4,865,333
Due to an associate	592,204	1,345,495	3,244,654	497,265
Due to joint ventures	39,294,914	37,742,306	35,207,964	5,395,857
Interest-bearing bank and other borrowings	17,363,932	23,728,043	25,255,339	3,870,550
Taxes payable	<u>6,851,772</u>	<u>9,926,137</u>	<u>12,284,787</u>	<u>1,882,726</u>
Total current liabilities	<u>90,697,356</u>	<u>109,671,769</u>	<u>121,113,896</u>	<u>18,561,517</u>
NET CURRENT ASSETS	<u>30,078,401</u>	<u>20,072,979</u>	<u>16,688,006</u>	<u>2,557,548</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>93,839,805</u>	<u>104,650,910</u>	<u>111,084,483</u>	<u>17,024,441</u>
NON-CURRENT LIABILITIES				
Lease liabilities ⁽¹⁾	—	1,895,326	1,567,291	240,198
Interest-bearing bank and other borrowings	60,418,315	61,849,507	52,605,276	8,062,111
Deferred tax liabilities	1,647,439	2,661,444	2,993,183	458,725
Deferred revenue	<u>2,042</u>	<u>2,042</u>	<u>2,042</u>	<u>313</u>
Total non-current liabilities	<u>62,067,796</u>	<u>66,408,319</u>	<u>57,167,792</u>	<u>8,761,347</u>
Net assets	<u>31,772,009</u>	<u>38,242,591</u>	<u>53,916,691</u>	<u>8,263,094</u>

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
EQUITY				
Equity attributable to owners of the Company				
Issued capital	303,909	304,148	304,474	46,663
Treasury shares	(125)	(176)	(1,723)	(264)
Reserves	<u>28,474,780</u>	<u>35,490,786</u>	<u>43,232,126</u>	<u>6,625,613</u>
	28,778,564	35,794,758	43,534,877	6,672,012
Non-controlling interests	<u>2,993,445</u>	<u>2,447,833</u>	<u>10,381,814</u>	<u>1,591,082</u>
Total equity	<u><u>31,772,009</u></u>	<u><u>38,242,591</u></u>	<u><u>53,916,691</u></u>	<u><u>8,263,094</u></u>

Note:

- (1) On January 1, 2019, the Company adopted the HKFRS 16. Prior to the adoption of HKFRS 16, the Company previously classified leases as either finance leases or operating leases. Upon the adoption of HKFRS 16, the Company applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term.

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

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated. Our consolidated financial statements were prepared in accordance with HKFRS, which may differ in certain material respects from generally accepted accounting principles in other jurisdictions.

Overview

We are a large-scale PRC property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi'an, Kunming, Yancheng and Hong Kong. We focus on mid- to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007 in Guangzhou. We also develop mid-to high-end hotels and operate some of them. We believe our investment properties and hotels will help to further strengthen our brand name. We have also engaged in property management business which we have recently spun off in October 2020. See "Recent Developments."

In 2018, 2019 and 2020, our revenue was RMB7,477.5 million, RMB24,956.3 million and RMB29,472.1 million (US\$4,558.2 million) (continuing operations), respectively. During the same periods, our profit for the year was approximately RMB4,154.8 million, RMB10,056.1 million and RMB6,665.1 million (US\$1,021.5 million) (continuing operations), respectively.

Key Factors Affecting Our Performance

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control. See "Risk Factors." Such factors include the following:

The Regulatory Environment Affecting the Real Estate Industry in China and General Economic Conditions

Our business and results of operations have been, and will continue to be, affected by the regulatory environment in China, particularly PRC government policies and measures with respect to property development and related industries. In recent years, the PRC government has implemented a series of measures with a view to managing the growth of the economy, including the real estate industry. While regarding the real estate industry as a pillar industry, the PRC government has taken various restrictive measures to discourage speculation and to increase the supply of affordable housing. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants, pre-sales of properties, bank financing and taxation. During the first half of 2016, the central government in the PRC continued with its relatively relaxed policy stance towards the real estate sector. The down-payment ratio was lowered to 20% for cities not subject to home purchase restrictions, while deed tax and business tax on property transactions

were also lowered in select cities to stimulate demand. A purchase/lease residential housing system was established, while property registration was also expedited to enhance a mechanism that would generate long-term efficiency. Under a stable policy environment promulgated by the central government, the disparity in the implementation of relevant policies varied and became apparent from city to city in the PRC. For example, tier-one cities reintroduced austerity measures as purchase restrictions were reiterated, including in Shanghai and Beijing. As a result, buyers were diverted to neighboring cities, causing property prices of these areas to rise. Subsequently, these affected cities also tightened their respective policies to stabilize property prices. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have an indirect impact on our business and results of operations. The PRC government may introduce initiatives which may affect our access to capital and the means by which we may finance our property development. See “Regulations” for more details on the relevant PRC laws and regulations.

China’s economy has experienced a slowdown as a result of the global economic and financial crisis since 2008. There have been signs that China’s economy has rebounded from its worst growth in a decade since the second quarter of 2009. However, there is no assurance that such improved conditions can be sustained. The downgrade of the United States debt by Standard & Poor’s Ratings Services in 2011, coupled with the economic turmoil in Europe and other parts of the world, including the outcome that United Kingdom officially exited the European Union On January 31, 2020, may continue to adversely affect the global economy and financial markets. It is difficult to determine the impact of any global economic slowdown and financial crisis on the property industry in China. If the global economic slowdown and financial market crisis continue or become more severe than currently estimated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected. See “Risk Factors—Risks Relating to Our Business—The global economic slowdown, crisis in global financial markets and volatility of property prices have negatively affected, and may continue to negatively affect, our results of operations, business and our ability to obtain necessary financing for our operations.”

In response to the global economic and financial crisis and in an effort to expand domestic demand, the State Council issued a notice on Adjusting the Capital Ratio of Fixed-Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) on May 25, 2009. Pursuant to the notice, the capital ratio for government-subsidized housing projects and ordinary commodity housing projects was reduced from 35% to 20%, and the capital ratio for other property development projects was reduced from 35% to 30%, which was further decreased to 25% in September 2015. On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of the Extent of Downward Floating Interest Rate for Commercial Individual Housing Loans (《關於擴大商業性個人住房貸款利率下浮幅度有關問題的通知》). Pursuant to the notice, the minimum down payment for home buyers on their first home purchase was lowered to 20% of the purchase price, with the minimum mortgage loan interest rate lowered to 70% of the relevant PBOC benchmark interest rate. These and other measures have affected the overall economy in China, with differing effects on various sectors. For example, in November and December 2009, in response to the rising property prices across the country, the PRC government announced new policies and adopted new measures to curtail speculation in the property market and imposed more stringent requirements on the payment of land premiums by property developers. The PRC government increased regulation over the property market in 2011. Policies restricting property purchases were adopted in nearly 50 cities, as compared to fewer than 20 cities in 2010. On January 26, 2011, the General Office of the State Council issued a circular which raised the proportion of minimum down payments for second house purchases from 50% to 60%. Regulations were promulgated at various levels to promote affordable housing. On February 26, 2013, the General Office of the State Council announced a new circular to further increase down payment ratios and

interest rates for loans to purchase second properties for those cities with excessive growth in housing prices. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations.

Changes in the economic conditions and the regulatory environment in the PRC in general or in cities and regions in which we operate may affect the selling price of our properties as well as the time it will take us to pre-sell or sell the properties we have developed. Lower selling prices, without a corresponding decrease in costs, will adversely affect our gross profit and reduce cash flow generated from the sale of our properties, which may increase our reliance on external financing and negatively impact our ability to finance the continuing growth of our business. Longer selling time will increase our selling and distribution costs as well as reduce the cash flow generated from the sale of our properties for a particular period. On the other hand, higher selling prices and shorter selling time may increase our gross profit, reduce our selling and distribution costs and increase our cash flow for a particular period to enable us to fund the continuing growth of our business.

The Product Mix and Geographic Locations of Our Properties

Our revenue, and cash from operations, is principally derived from sales of residential properties and, to a lesser extent, sales of office properties, retail properties, car park spaces and serviced apartments. We also derive recurring revenue from our investment properties, which we hold for recurring income and capital appreciation. In addition, we derive revenue from hotel room rentals, food and beverage sales and other ancillary services from our hotel operations and property management fee income. Our results of operations and the sources and amount of our cash from operations may vary significantly from period to period depending on the type and volume of our completed properties that we sell or rent, which frequently depend on the timing of the completion of various stages in the property development process. See “—Timing of Property Development.” Our results of operations and cash flows will also vary depending on the market demand at the time we sell or rent our properties, which affects the rental and occupancy rates of our investment properties and hotels and the selling prices for units in our residential and other properties. The recurring income and sales proceeds we receive from, and the occupancy levels of, our property developments depend on local market prices which in turn depend on local supply and demand conditions, as well as the type of property being developed.

Timing of Property Development

The number of property developments that a developer can undertake during any particular period is limited due to substantial capital requirements for land acquisitions and construction costs as well as limited land supply. In addition, significant time is required for property development and it may take many months or probably years before pre-sales of a property development can occur. Moreover, while the pre-sale of a property generates positive cash flow for us in the period in which it is made, we must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes. In addition, no revenue is recognized with respect to such property until it has been completed and delivered to the purchaser. As market demand is not stable, revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected completion date of a particular project, while delays in construction, regulatory approval processes and other factors can adversely affect the timetable of our projects. As our revenue from sales of properties are recognized upon the delivery of properties, the timing of such delivery may not only affect the amount and growth rate of our revenue but also cause changes in other payables and accruals to fluctuate from period to period. As a result, our results of operations have fluctuated in the past, primarily due to the volume of GFA delivered, which is partially a result of timing of our property development, and are likely to continue to fluctuate in the future.

Fluctuations in the Valuation of Our Investment Properties

Our investment properties principally consist of office buildings, retail shop units and car park spaces for rent held for recurring revenue and capital appreciation. Our investment properties (excluding hotels and serviced apartments, which are recorded as non-current assets under “property, plant and equipment” on our consolidated statements of financial position) are stated at fair value on our consolidated statements of financial position as non-current assets as of the end of each reporting period on the basis of valuations by an independent property valuer. Gains or losses arising from changes in the fair value of our investment properties are accounted for as profit or loss upon a revaluation increase or decrease in investment properties in our consolidated statement of profit or loss, which may have a substantial effect on our profits. The property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The bases and assumptions which the valuer uses for the valuation typically includes values realized in comparable precedent transactions in the market for properties of similar size, character and location. The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by other independent professional valuers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties as of the relevant reporting dates and are not profit generated from the sales or rentals of our investment properties, and do not generate any cash inflow to us until such investment properties are disposed of at similarly revalued amounts. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and may fluctuate significantly. We cannot assure you that we will record fair value gains, or that we will not record fair value losses, in the future.

Availability and Cost of Land

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase suitable land reserves at commercially acceptable prices. Land acquisition costs are one of the primary components of our cost of sales for property development, which consists of land premium and, where necessary, the cost of demolition of existing buildings and relocation of residents. The cost of acquiring land has a direct and substantial effect on our gross margins. We expect competition among property developers for suitable land reserves to remain intense, which affects land prices. In addition, PRC government policies and measures on land supply may further intensify competition for land in China among property developers. For example, although privately held land use rights are not prevented from being traded in the secondary market, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights is likely to increase competition for available land and to increase land acquisition costs. Furthermore, in November 2009, the PRC government raised the minimum down-payment of land premium to 50% and required the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. In March 2010, the Ministry of Land and Resources promulgated a notice to strictly regulate the transfer of land for commercial buildings. According to the notice, the area of a parcel of land granted for commodity residential development should be strictly restricted in accordance with the catalog of restricted use of land and the minimum price of the land transfer should not be less than 70% of the benchmark price of the place where the land being transferred is located, and the real estate developer’s bid deposit should not be less than 20% of the minimum transfer price. See “Regulations—The Land System of The PRC—National Legislation.” These changes of policy may materially and adversely affect our cash flow and our ability to acquire suitable land for our operations.

Costs of Labor and Construction Materials

Our results of operations are affected by the costs of labor and construction materials such as steel and cement. As a result of the economic growth and the boom in the property development industry in the PRC, wages for construction workers and the prices of construction materials have increased substantially in recent years. Further, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which came into effect on January 1, 2008 and revised on December 28, 2012 with effect from July 1, 2013, enhanced the protection for employees and increased employers' liability in many circumstances, which may further increase our labor cost. To the extent that we are not able to pass such increased costs on to our customers, our gross margin and our results of operations would be adversely affected.

To reduce our exposure to price volatility of construction materials, we typically enter into contracts with third-party construction contractors pursuant to which the construction contractors are responsible for procuring most of the construction materials for our property development projects. Such construction contracts typically fix or cap the unit price of the construction materials and the total price payable depends on quantity. Similarly, under the terms of most of our construction contracts, labor wages are paid by the construction contractors. However, we are exposed to price volatility of labor and construction materials to the extent that we periodically enter into or renew our construction contracts at different terms during the life of a project, which may span over several years, or if we hire construction workers directly or procure the construction materials directly from suppliers, any of which may result in increased cost of sales and decreased profit margin. Furthermore, we typically pre-sell our properties prior to their completion and we will not be able to pass the increased costs on to our customers if labor or construction costs increase subsequent to the time of such pre-sale.

Access to and Cost of Financing

Borrowings are an important source of funding for our property developments. As of December 31, 2018, 2019 and 2020, our outstanding interest-bearing bank and other borrowings amounted to RMB77,782.2 million, RMB85,577.6 million and RMB77,860.6 million (US\$11,932.7 million), respectively. See "Description of Material Indebtedness and Other Obligations." Because commercial banks in China link the interest rates on their borrowings to the benchmark lending rates published by PBOC, any increase in such benchmark lending rates will increase the interest costs for financing our developments. Our access to capital and cost of financing are affected by restrictions imposed from time to time by the PRC government on bank lending for property development. In addition, since we have Hong Kong dollar-denominated debt, our access to capital and cost of financing are also affected by fluctuations in the Hong Kong Interbank Offered Rate, an interest rate stated in Hong Kong dollars on the lending and borrowing between banks in the Hong Kong interbank market. A significant portion of our finance costs are capitalized rather than being expensed at the time they are incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase.

An increase in our finance costs would negatively affect our profitability and results of operations and the availability of financing will affect our ability to engage in our project development activities, which will negatively affect our results of operations.

Critical Accounting Policies

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

Revenue Recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and installments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services when the services are rendered;
- (d) property management fee income, when the related management services have been provided; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Properties Under Development, Cost of Sales and Completed Properties Held for Sale

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

Cost of sales for each property we sell includes construction costs, costs of obtaining land use rights and capitalized borrowing costs on related borrowed funds during the period of construction, based upon the total saleable GFA of properties expected to be sold in each project, which are allocated to each property based on the estimated relative saleable GFA of each property. We make such estimates based on the information available at the time of completion of the relevant sales

contracts, including the development plan and budget for the project. If there is any change to the estimated total development cost subsequent to the initial sales for a project, for example, due to fluctuations in construction costs or changes in development plans, we will need to finalize the cost with the contractor and allocate the increased or decreased cost to all the properties in the project, including those that have been sold in prior periods, which will increase or decrease the unit costs of, and erode or improve the margins realizable on, the properties of the project during the period in which such change occurs.

Completed properties held for sale are stated at the lower of cost and net realizable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realizable value is estimated by our directors based on the prevailing market prices, on an individual property basis.

Valuation of Our Investment Properties

Our investment properties are stated at fair value based on valuations performed by independent professional valuers. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period. In determining the fair value, the valuers have based this on a method of valuation which involves certain estimates, which are subject to uncertainty and might materially differ from actual results. In relying on the valuation report provided by the valuers, our management team has exercised its judgment and is satisfied that the method of valuation is reflective of current market conditions. See “—Certain Statement of Profit or Loss Items—Fair Value Gains on Investment Properties, net.”

Completed investment properties and property being constructed or developed for future to be held as an investment property to earn rental income and/or for capital appreciation is classified as an investment property. Our accounting policy for investment properties is to state them at fair value with changes in fair values recognized in the statement of profit or loss in the period in which they arise. An investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the period of the retirement or disposal. For a transfer from properties under development or completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of profit or loss.

Capitalized Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

LAT

We are subject to LAT with respect to the appreciated value of land. LAT applies to both domestic and foreign developers and investors in real properties in China, irrespective of whether they are corporate entities or individuals. For 2018, 2019 and 2020, we made LAT prepayments of RMB361.6 million, RMB743.7 million and RMB657.3 million (US\$100.7 million), respectively, and LAT provisions of RMB322.2 million, RMB1,008.8 million and RMB1,752.5 million (US\$268.6 million), respectively. We prepay LAT on the basis of our pre-sale proceeds in accordance with requirements of PRC tax authorities and provide for unpaid LAT liabilities based on our best estimate according to our understanding of prevailing tax rules. Actual LAT liabilities are, however, subject to determination by the tax authorities upon completion of the property development projects and, because the PRC government has not published clear and comprehensive guidelines in this regard, the tax authorities may disagree that our provisions are sufficient to cover all actual LAT obligations as of each balance sheet date in respect of our past LAT liabilities. See “Regulations—Taxation in China—Land Appreciation Tax.”

Classification Between Investment Properties and Properties Held for Sale and Properties Under Development

We develop properties held for sale and properties held to earn rentals and for capital appreciation. Judgment is made by our management on whether a property is designated as an investment property or a property held for sale. In general, we make the judgment at the early development stage of the properties. However, in response to the market demand for investment properties, we may from time to time amend the corporate strategies on our properties portfolio. During the course of construction, the properties are accounted for as properties under development, under current assets, if the properties are intended for sale after their completion; properties are accounted for as investment properties under construction, under non-current assets, if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties.

Deferred tax assets and deferred taxation on investment properties

Significant management judgment is required in determining the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits and future tax planning strategies. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, our management has reviewed our investment properties and concluded that our investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Accordingly, we recognize deferred tax in respect of the changes in fair value of the investment properties based on our management’s best estimate assuming future tax consequences through usage of such properties for rental purposes, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognized in our consolidated financial statements should the investment properties be subsequently disposed by us. In the event that the investment properties are disposed of, we may be liable for higher tax upon disposal depending on the impact of corporate income tax and LAT.

Withholding tax arising from the distribution of dividends

Dividends from PRC subsidiaries to their foreign shareholders are subject to a withholding tax at a rate of 10% unless a lower treaty rate is applicable. See “Regulations—Taxation in China—Income Tax.” We are, therefore, liable for withholding taxes on dividends distributed by our subsidiaries and joint ventures established in the PRC (“PRC Subsidiaries and Joint Ventures”) in respect of generated earnings. Our determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain PRC Subsidiaries and Joint Ventures according to the jurisdiction of the immediate holding company of such PRC Subsidiaries and Joint Ventures is subject to judgment on the timing of the payment of the dividends. In prior years, deferred tax had been provided on dividends distributed by the PRC Subsidiaries and Joint Ventures in respect of earnings generated from January 1, 2008 to December 31, 2014. Taking into account our dividend policy and the working capital demand of our business operation in the PRC, our directors are of the view that it is the best interest of the Company to distribute its 2016 final dividend and its final dividends in the foreseeable future out of profits of the Company and out of the share premium account of the Company subject to the Company’s articles of association. There are no income tax consequences attaching to our payment of dividends out of the share premium account of the Company. In the opinion of our directors, we have sufficient distributable reserves, including the Company’s share premium, to meet our dividend policy in the foreseeable future, and it is not probable that dividends would be declared by the PRC Subsidiaries and Joint Ventures in the foreseeable future.

Certain Statement of Profit or Loss Items

Revenue

Our revenue represents primarily the (i) gross proceeds from sales of properties, (ii) gross recurring revenue received and receivable from investment properties, (iii) gross revenue from hotel operations, including hotel room rentals, food and beverage sales and other ancillary services when the services are rendered and (iv) property management fee income, which is categorized into four business segments: property development, property investment, hotel operation and property management, respectively. We are subject to business tax and value added tax at the rate of approximately 3% to 5% and 6% to 11%, respectively, for all our operating segments. Revenue is presented net of business tax and value added tax. We discontinued our property management services upon spin-off of KWG Living in October 2020.

The following table sets forth our revenue in each operating segment and the percentage of revenue represented by each segment for the years indicated.

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(Unaudited)			
	(in thousands, except percentages)			
Property development	6,064,248	22,761,946	28,486,724	4,365,781
Property investment	379,321	626,909	801,073	122,770
Hotel operation	468,181	553,098	454,266	69,619
Property management	565,721	1,014,308	—	—
Total	<u>7,477,471</u>	<u>24,956,261</u>	<u>29,742,063</u>	<u>4,558,170</u>

In 2018, 2019 and 2020, we derived substantially all of our revenue from the development and sale of residential properties. In the future, we intend to further expand our business into the development of shopping malls, hotels, office buildings and other commercial properties, and therefore we expect our recurring revenue generated from the property management, hotel operation and property investment segments to increase over time.

Property Development

Revenue from property development represents proceeds from sales of our properties held for sale. Because we derive substantially all of our revenue from the property development segment, our results of operations for a given period depend upon the GFA of properties we have completed and delivered during that period, the market demand for those properties and the price we are able to obtain for such properties. Conditions of the property markets in which we operate change from period to period and are affected by the general economic, political and regulatory developments in the PRC as well as in Guangzhou and other locations where we operate. See “—Key Factors Affecting Our Performance.”

Consistent with industry practice, we typically enter into purchase contracts with customers while the properties are still under development but after satisfying the conditions for pre-sales in accordance with PRC laws and regulations. See “Business—Property Development—Pre-sale.” In general, there is a time difference, typically ranging from several months to one year, between the time we commence pre-selling properties under development and the completion of the relevant property development. We do not recognize any revenue from the pre-sales of our properties until such properties are completed and delivered to the purchasers, even though we receive payments at various stages prior to delivery. Before the delivery of a pre-sold property, payments received from purchasers are recorded as “deposits received and receipts in advance” under “current liabilities—other payables and accruals” on our consolidated statements of financial position. As our revenue from sales of properties are recognized upon the delivery of properties, the timing of such delivery may not only affect the amount and growth rate of our revenue but also cause changes in other payables and accruals to fluctuate from period to period. As of December 31, 2018, 2019 and 2020, our deposits received in advance arising from pre-sales of various development projects, amounted to approximately RMB11,943.3 million, RMB15,542.4 million and RMB15,615.8 million (US\$2,393.2 million), respectively.

Property Investment

Revenue from our property investment segment represents recurring revenue from our investment properties, which has been generated from the rental of shopping malls, office buildings, retail properties and car park spaces of our residential projects, is recognized on a straight-line basis over the lease period. Our investment properties mainly comprise International Finance Place in Guangzhou which was completed in 2007 and the U Fun shopping center in Shanghai and Tian Hui Plaza in Guangzhou which were completed in 2016 and the U Fun Shopping Center in Suzhou, Chengdu and Guangzhou. For 2018, 2019 and 2020, our gross rental income was RMB379.3 million, RMB626.9 million and RMB801.1 million (US\$122.8 million), respectively. In the future, we expect that our recurring revenue will continue to increase over time as we further expand the development and management of shopping malls, office buildings and other commercial properties. We believe the increase of such recurring revenue will help us reduce over-reliance on a particular sector of the property market and diversify our risk exposure to reduce the potential impact of adverse developments in the PRC economy and property markets in the cities in which we do business.

Hotel Operation

Revenue derived from hotel operations is recognized when such services are provided. Revenue from our hotel operations was RMB468.2 million, RMB553.1 million and RMB454.3 million (US\$69.6 million) for 2018, 2019 and 2020, respectively. We expect that, as a proportion of our total revenue, revenue from hotel operations will increase as we develop more hotel projects in the future.

Property Management

Revenue from our property management segment is recognized when the related management services are provided. We established our two property management subsidiaries in 2003 and 2004 respectively, which provide property management services to our residential and commercial properties. We discontinued our property management services upon spin-off of KWG Living in October 2020. For 2018, 2019 and 2020, our revenue from property management fees was RMB565.7 million, RMB1,014.3 million and RMB732.9 million (US\$112.3 million), respectively.

Cost of Sales

Cost of sales primarily represents the costs we incur directly for our property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct cost of construction, costs of obtaining land use rights and capitalized borrowing costs on related borrowed funds during the period of construction.

We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties have been recognized in such period. Prior to their completion and delivery, properties under development are included in our consolidated statements of financial position at the lower of cost and net realizable value. Net realizable value for our properties under development is determined by reference to management’s estimates of the selling prices based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs of completion. Net realizable value for our completed properties held for sale is determined by our directors based on prevailing market prices, or on individual property basis. Cost for properties under development comprises construction costs, costs of obtaining land use rights and capitalized borrowing costs. The components of our cost of sales may change in any given year based on the stage of our projects in the property development process. See “Business—Property Development.”

Construction Costs

Construction costs include all of the costs for the design and construction of a project, including payments to third-party contractors and designers and costs of construction materials. Historically, construction material costs (which are generally included in the payments to the construction contractors), particularly the cost of steel and cement, have been a major cause of fluctuations in our construction costs. See “—Key Factors Affecting Our Performance—Cost of Labor and Construction Materials.”

Other components of our construction costs include those for ventilation systems, plant watering systems, elevators and interior decoration materials. Construction cost per sq.m. decreased from RMB5,829.0 in 2018 to RMB4,626 in 2019 and further to RMB3,490 (US\$534.9) in 2020.

With the overall improvement of living standards in the PRC as well as the PRC government’s recent policies aiming to increase wages of migrant workers, we expect the trend of increasing labor costs to continue into the near future, which in turn will increase our construction costs.

Costs of Land Use Rights

Costs of land use rights include costs relating to acquisition of the rights to occupy, use and develop land, and primarily represent land premiums incurred in connection with a land grant from the government or land obtained in the secondary market, by transfer, cooperative arrangement, corporate acquisition or otherwise. Our costs of land use rights are influenced by a number of factors, including the location of the property, the timing of the acquisition and the project’s plot ratios. Costs of land use rights are also affected by our method of acquisition, whether by PRC government-organized tenders, auctions or listings-for-sale, through private sale transactions and cooperative agreements with third parties in the secondary market or through the acquisition of other companies that hold land use rights. We may also be required to pay demolition and resettlement costs. Land cost per sq.m. decreased from RMB3,750 in 2018 to RMB3,102 in 2019 and further to RMB4,309 (US\$660.4) in 2020.

Capitalized Borrowing Costs

We capitalize a portion of our costs of borrowings to “properties under development,” “investment properties” or “assets under construction” under “property, plant and equipment” on our consolidated statements of financial position (depending on whether the relevant project is being developed for sale, investment or hotel operation purposes) to the extent that such costs are directly attributable to the construction of a project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which typically precedes the receipt of a construction permit, until the completion of construction. For any given project, finance costs incurred after the end of the month in which construction on the project is completed are not capitalized, but are instead accounted for in our consolidated statement of profit or loss as finance costs in the period in which they are incurred.

Other Income and Gains, net

Other income and gains, net primarily comprise net gains on the disposal of our investment properties, interest income on bank deposits, management fee income, net foreign exchange differences and others. Upon the disposal of an investment property, the difference between the net proceeds and the carrying value is accounted for as a gain or loss on the disposal of an investment property and is recorded on our consolidated statement of profit or loss under “other income and gains, net.”

Selling and Marketing Costs

Selling and marketing costs include advertising and promotional expenses relating to sales and rental of our properties (including advertisements on television, in newspapers and magazines and on billboards, promotional offers made directly to our customers and certain other promotional events), selling and marketing staff costs and other selling expenses. Our selling and marketing costs in any period are affected by the proportion of newly introduced developments in our portfolio in that period. We expect our selling and marketing costs to continue to increase, as we have multiple projects which we expect to be released to the market on a rolling basis in the near future. Furthermore, we may be required to incur additional selling and marketing costs when we enter into a new market as part of our efforts to develop our brand in those markets.

Administrative Expenses

Administrative expenses include primarily administrative staff costs, travelling and entertainment expenses, other professional fees, and general office expenses.

Other operating expenses, net

Other operating expenses primarily include premium paid on early redemption of senior notes and losses on the disposal of investment properties. See “—Fair Value Gains on Investment Properties, net” for details on the losses on the disposal of investment properties.

Fair Value Gains on Investment Properties, net

Investment properties are interests in land and buildings held to earn recurring income and/or for capital appreciation. Such interests are recorded as non-current assets under “investment properties” on our consolidated statements of financial position. “Properties under development” on our consolidated statements of financial position represent the properties that we are developing for sale and do not include any investment properties. Our investment properties currently comprise commercial properties held for rental purposes and/or for capital appreciation, including office building, retail properties and car park spaces. With regard to retail properties and car park spaces on a residential project, we treat some of them as investment properties upon the completion of such properties. However, we have the discretion to sell these retail properties and car park spaces when we believe sales will generate more economic return. Once a retail property or a car park space is sold, it is excluded from our investment properties. The gains on disposals of these investment properties are recognized as “other income and gains,” and the losses on disposal of such properties are recognized as “other operating expenses, net.”

Gains or losses arising from changes in the fair values of investment properties are included in our consolidated statement of profit or loss in the year in which they arise. Our investment properties were revalued by DTZ/Cushman & Wakefield (formerly known as “DTZ Debenham Tie Leung Limited”) as of December 31, 2017 and 2018 by CBRE (formerly known as “CBRE Limited”) and by Savills (formerly known as “Savills Valuation and Professional Services Limited”) as of December 31, 2019 and 2020, respectively. Our investment properties are revalued on an open market, existing use basis which reflected market conditions on those dates. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated statements of financial position, recognized fair value gains or losses on investment properties on our consolidated statement of profit or loss and recognized the relevant deferred tax under “income tax expenses” on our consolidated statement of profit or loss.

As of December 31, 2018, 2019 and 2020, the fair value of our investment properties was RMB17,490.6 million, RMB27,263.3 million and RMB29,320.8 million (US\$4,493.6 million), respectively. For 2018, 2019 and 2020, the fair value gains on our investment properties were RMB1,714.7 million, RMB3,716.5 million and RMB415.2 million (US\$63.6 million), respectively.

The fair value of each of our investment properties is likely to fluctuate from time to time and the fair value of our investment properties may decrease significantly in the future. Any such decrease in the fair value of our investment properties would reduce our profits. See “Risk Factors—Risks Relating to Our Business—The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our results of operations.”

Finance Costs

Finance costs consist primarily of interest costs on bank loans and other borrowings, including senior notes and domestic corporate bonds net of capitalized borrowing costs. We capitalize a portion of our costs of borrowings to “properties under development” or to “assets under construction” under “property, plant and equipment” or to “investment property under construction” under “investment properties” on our consolidated statements of financial position (depending on whether the relevant project is being developed for sale or for investment purposes) to the extent that such costs are directly attributable to the construction of a project. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on such indebtedness. Since the development period for a property development does not necessarily coincide with the repayment period of the relevant loan, not all of the interest costs related to a property development can be capitalized. As a result, the period to period fluctuation of our finance costs is also attributable to the amount and timing of capitalization. See “—Critical Accounting Policies—Capitalized Borrowing Costs.”

Share of Profit and Loss of Associates

Share of profit and loss of associates represents our profit or loss after tax that is attributable to our interest in associates.

Share of Profits and Losses of Joint Ventures

Share of profits and losses of joint ventures represents our profits or losses after taxation that is attributable to our interests in joint ventures pursuant to the joint venture agreements.

Income Tax Expenses

Our tax expenses for a given year include PRC enterprise income tax and LAT during the period. For 2018, 2019 and 2020, our effective tax rate (income tax expenses divided by profit before tax) was 22.9%, 26.2% and 33.8%, respectively.

PRC Enterprise Income Tax

Income tax expense represents PRC enterprise income tax liabilities accrued by our operating subsidiaries. The PRC enterprise income tax has been calculated at the applicable tax rate on the assessable profits for each of 2018, 2019 and 2020. According to the PRC Enterprise Tax Law enacted by the National People’s Congress on March 16, 2007, which became effective on January 1, 2008, a uniform income tax rate of 25% has been applied towards foreign investment and foreign enterprises which have set up production and operation facilities in the PRC. We are subject to tax at the uniform income tax rate.

Land Appreciation Tax

Under PRC laws and regulations, our PRC subsidiaries that are engaged in the property development business are subject to LAT, as determined by the local authorities in the location in which each project is located.

LAT Calculation. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined in the relevant tax laws. Certain exemptions are available for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such an exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government, taking into consideration the property's plot ratio, aggregate GFA and sales price. Sales of higher-end properties and commercial properties are generally assessed at higher appreciation values, and are therefore generally subject to higher LAT rates.

LAT Provision. Our Guangzhou properties and all of our other projects currently under development or held for future development are subject to the regular LAT obligation at progressive rates between 30% and 60%. We estimate and make provisions for what we believe to be the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations. For 2018, 2019 and 2020, we have provided for LAT in the amount of RMB322.2 million, RMB1,008.8 million and RMB1,752.5 million (US\$268.6 million), respectively. Because we are only permitted to deduct our LAT provisions for enterprise income tax purposes when the relevant LAT is paid, we recognize deferred tax assets on our consolidated statements of financial position to the extent that we have made provision for LAT on properties sold or pre-sold, in each case until such time as the related LAT payments are made.

LAT Prepayment. On May 25, 2010, the SAT published the Circular on Strengthening the Collection and Administration of Land Value Added Tax (《關於加強土地增值稅徵管工作的通知》). According to the circular, all local government shall made adjustments to the current pre-tax ratio. In addition to safeguarding housing, the pre-tax ratio of provinces in the eastern region shall not be lower than 2%, while the provinces in middle and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%; and the local government shall determine the pre-tax ratio applicable to different types of real estate. For the years ended December 31, 2018, 2019 and 2020, we made LAT prepayments in the amount of RMB361.6 million, RMB743.7 million and RMB657.3 million (US\$100.7 million), respectively.

LAT Enforcement. On December 28, 2006, SAT issued a circular, which took effect on February 1, 2007. Under this circular, LAT must be settled if any of the following criteria is met: (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole development project prior to completion; or (3) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the developer to settle its LAT obligations if any of the following criteria is met:

- for completed property development projects, the GFA transferred to buyers represents more than 85% of total saleable GFA of the relevant project, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer;

- the project has not been sold out for more than three years after obtaining the sale or pre-sale permit;
- the developer applies for cancellation of tax registration without having settled the relevant LAT obligations; or
- other conditions stipulated by the tax authorities.

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 method of revenue recognition in the settlement of land LAT and other relevant issues. According to the circular, in the settlement of LAT, if the sales invoices of commodity properties are issued in full, revenue shall be recognized based on the amount indicated in the invoices. If the sales invoices of commodity properties are not issued or are issued in part, revenue shall be recognized based on the purchase price indicated in the sales contract as well as other income. If the area of a commodity properties specified in a sales contract is inconsistent with the result obtained by the relevant authorities after an on-site survey and the purchase price is made up or returned before the settlement of LAT, adjustments shall be made in the calculation of LAT. The circular provides that the deed tax paid by a real estate development enterprise for land use rights shall be treated as the “relevant fees paid in accordance with the uniform regulations of the state” and be deducted from the amount paid for land use rights.

For projects developed in different phases, the LAT must be settled upon the completion of each phase. Local authorities, including the Guangzhou tax bureau, are required to issue regulations in compliance with the circular in consideration of local conditions. Our final LAT clearance and settlement in respect of any given property development project can be determined and made according to the requirements of the circular, or as and when requested by the relevant tax authorities. The relevant tax authorities have not yet notified us to commence final LAT clearance and settlement in respect of any of our property development projects. We believe we have made LAT prepayment and provision in accordance with all relevant PRC tax laws and regulations. Nevertheless, we cannot assure you that our LAT provisions are sufficient to cover our LAT obligations or that the tax authorities will agree with the basis on which we calculate our LAT obligations. In addition, our cash flows may be materially and adversely affected should the Guangzhou tax bureau require us to make immediate LAT settlement payments in respect of properties that we have developed.

As we are planning to continue to expand our property developments outside Guangzhou, we are subject to LAT as implemented by the local tax authorities in our new markets and we cannot assure you that any LAT obligations we calculate and provide for in respect of properties in these new markets will be sufficient to cover the LAT obligations which the local tax authorities ultimately impose on us.

Deferred Tax

We provided for deferred tax, using the liability method, on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantially enacted by the balance sheet date are used to determine the deferred tax.

We provided for deferred tax liabilities, including the taxable temporary differences arising on fair value gains on investment properties, in full while deferred tax assets are recognized to the extent that it is probable that future profit will be available against which the temporary differences can be utilized. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Hong Kong and Cayman Islands Tax

We have not made any provision for Hong Kong profits tax as we had no assessable profit in Hong Kong during 2018, 2019 and 2020. Furthermore, pursuant to section 6 of the Tax Concession Law (1999 Revision) of the Cayman Islands, as an exempted company, we have obtained an undertaking from the Governor-in-Cabinet exempting the Company from certain tax in the Cayman Islands for a period of twenty years from August 8, 2006 as set out in “Taxation — Cayman Islands”.

Results of Operations

2020 compared to 2019

Revenue. Our revenue increased by 24.2% from RMB23,942.0 million (restated) in 2019 to RMB29,742.1 million (US\$4,558.2 million) in 2020.

- *Property Development.* Revenue generated from property development increased by 25.2% to approximately RMB28,486.7 million (US\$4,365.8 million) in 2020 from approximately RMB22,761.9 million in 2019, primarily due to an increase in the total GFA delivered to 2,155,240 sq.m. in 2020 from 1,771,190 in 2019. The average selling price increased from RMB12,851 per sq.m. in 2019 to RMB13,217 per sq.m. in 2020, reflecting a change in delivery portfolio with different city mix and product mix as compared with that for the corresponding period in 2019.
- *Property Investment.* Revenue generated from property investment increased by 27.8% to approximately RMB801.1 million (US\$122.8 million) in 2020 from approximately RMB626.9 million for the corresponding period in 2019, primarily attributable to an increase in leaseable GFA from leased investment properties.
- *Hotel operation.* Revenue generated from hotel operation decreased by 17.9% to approximately RMB454.3 million (US\$69.6 million) in 2020 from approximately RMB553.1 million in 2019, primarily due to the adverse impact of the unexpected outbreak of COVID-19.

Cost of sales. Cost of sales increased by 23.6% to approximately RMB20,383.2 million (US\$3,123.9 million) in 2020 from approximately RMB16,496.0 million (restated) in 2019, primarily due to the increase of total GFA delivered in sales of properties. Land cost per sq.m. increased from RMB3,102 in 2019 to RMB4,309 in 2020. Construction cost per sq.m. decreased from RMB4,626 in 2019 to RMB3,490 in 2020.

Gross profit. Gross profit increased by 25.7% to approximately RMB9,358.8 million (US\$1,434.3 million) in 2020 from approximately RMB7,446.0 million (restated) for the corresponding period in 2019. The increase of gross profit was principally due to the increase in the total revenue in 2020. We reported gross profit margin of 31.5% in 2020 as compared to 31.1% in 2019.

Other Income and Gains, Net. Other income and gains decreased by 42.9% to approximately RMB1,628.1 million (US\$249.5 million) in 2020 from approximately RMB2,853.7 million (restated) in 2019, and mainly comprised interest income and management fee income related to our joint venture projects of approximately RMB711.8 million (US\$109.1 million) and RMB420.1 million (US\$64.4 million) respectively.

Selling and Marketing Expenses. Selling and marketing expenses increased by 21.5% to approximately RMB1,222.4 million (US\$187.3 million) in 2020 from approximately RMB1,006.4 million (restated) in 2019, mainly due to an increase in sales commission, which was in line with the increase in revenue generated from sales of properties during the period.

Administrative Expenses. Administrative expenses slightly increased by 0.6% to approximately RMB1,560.8 million (US\$239.2 million) in 2020 from approximately RMB1,551.0 million (restated) in 2019.

Other Operating Expenses, Net. Other operating expenses were approximately RMB3.0 million (US\$0.5 million) in 2020.

Fair Value Gains on Investment Properties, Net. We reported fair value gains on investment properties of approximately RMB415.2 million (US\$63.6 million) in 2020, mainly related to various leasable commercial properties in various regions.

Finance Costs. Finance costs decreased to approximately RMB1,034.2 million (US\$158.5 million) in 2020 from approximately RMB1,531.0 million (restated) in 2019, which were related to the borrowing costs on certain general corporate loans and partial senior notes. Since such borrowings were not earmarked for project development, they have not been capitalised.

Income Tax Expenses. Income tax expenses decreased by 2.8% to approximately RMB3,397.8 million (US\$520.7 million) in 2020 from approximately RMB3,497.4 million (restated) in 2019, primarily due to a decrease on profit before tax as a result of the decrease in fair value gains on investment properties in 2020.

Upon the spin-off of KWG Living on October 30, 2020, the Company did not retain any interest in the issued share capital of KWG Living and KWG Living became a fellow subsidiary of the Company, which was classified as a discontinued operation. The results of KWG Living as a discontinued operation was approximately RMB236.2 million (US\$36.2 million) in 2020 from approximately RMB185.0 million (restated) in 2019.

Profit for the Year. We reported profit for the year of approximately RMB6,901.3 million (US\$1,057.7 million) in 2020.

2019 compared to 2018

Revenue. Our revenue significantly increased by 233.8% to RMB24,956.3 million in 2019 from RMB7,477.5 million in 2018.

- *Property Development.* Revenue generated from property development increased by 275.3% to approximately RMB22,761.9 million in 2019 from approximately RMB6,064.2 million in 2018, primarily due to an increase in GFA delivered to 1,771,190 sq.m. in 2019 from 400,602 sq.m. in 2018. Despite the increase in GFA delivered, the average selling price decreased from RMB15,137 per sq.m. in 2018 to RMB12,851 per sq.m. in 2019, reflecting a change in delivery portfolio with different city mix and product mix as compared with that for the corresponding period in 2018.
- *Property Investment.* Revenue generated from property investment significantly increased by 65.3% to approximately RMB626.9 million in 2019 from approximately RMB379.3 million in 2018, primarily due to an increased leaseable GFA from leased investment properties.
- *Hotel operation.* Revenue generated from hotel operation increased by 18.1% to approximately RMB553.1 million in 2019 from approximately RMB468.2 million in 2018, primarily due to an increase in occupancy rate of the hotels.
- *Property management.* Revenue generated from property management increased by 79.3% to approximately RMB1,014.3 million in 2019 from approximately RMB565.7 million in 2018, primarily due to an increase in the number of properties under management.

Cost of Sales. Cost of sales significantly increased by 240.0% to approximately RMB17,090.5 million in 2019 from approximately RMB5,026.2 million in 2018, mainly due to the increase in total GFA delivered in sales of properties. Land cost per sq.m. decreased from RMB3,750 in 2018 to RMB3,102 in 2019. Construction cost per sq.m. decreased from RMB5,829 in 2018 to RMB4,626 in 2019, due to the change in delivery portfolio with different city mix compared with that in 2018.

Gross Profit. Gross profit significantly increased by 220.9% to approximately RMB7,865.8 million in 2019 from approximately RMB2,451.3 million in 2018. The increase of gross profit was principally due to the increase in the total revenue in 2019. We reported gross profit margin of 31.5% for 2019 as compared with 32.8% for 2018.

Other Income and Gains, Net. Other income and gains increased by 5.8% to approximately RMB2,858.9 million in 2019 from approximately RMB2,703.4 million in 2018, mainly comprising interest income and gains on derecognition of subsidiaries of approximately RMB949.3 million and RMB691.4 million respectively.

Selling and Marketing Expenses. Selling and marketing expenses increased by 89.3% to approximately RMB1,007.4 million in 2019 from approximately RMB532.1 million in 2018, mainly due to the increase in sales commission with the rapid growth of revenue, and an increase in advertising expenses in conjunction with launching of 36 new grand projects during 2019.

Administrative Expenses. Administrative expenses increased by 31.4% to approximately RMB1,726.1 million in 2019 from approximately RMB1,313.8 million in 2018, primarily attributable to increased headcounts to catch up with the rapid development in various regional offices in order to achieve our long term goal.

Other Operating Expenses, Net. Other operating expenses was approximately RMB4.5 million in 2019.

Fair Value Gains on Investment Properties, Net. We reported fair value gains on investment properties of approximately RMB3,716.5 million in 2019, mainly related to various leaseable commercial properties in various regions.

Finance Costs. Finance costs increased significantly by 43.1% to approximately RMB1,531.3 million in 2019 from approximately RMB1,070.1 million in 2018, which was related to the borrowing costs on certain general corporate loans and partial senior notes. Since such borrowings were not earmarked for project development, thus they have not been capitalised.

Income Tax Expenses. Income tax expenses increased by 188.2% to approximately RMB3,563.0 million in 2019 from approximately RMB1,236.4 million in 2018, primarily due to an increase in provision of land appreciation tax and corporate income tax as a result of the increase in the total GFA delivered from sales of properties in 2019.

Profit for the Year. We reported profit for the year of approximately RMB10,056.1 million in 2019.

Liquidity and Capital Resources

We intend to continue to fund our future development and debt servicing costs from existing financial resources and cash generated from operations. We may also raise additional funds through debt or equity offerings or sales or other dispositions of assets in the future to finance all or a portion of our future development, for debt servicing or for other purposes. In the past, we have also financed some of our property developments through trust financing. Our ability to obtain adequate financing to satisfy our debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. See “Risk Factors—Risks Relating to Our Business—We may not have adequate financing to fund our land acquisitions and property projects.”

Cash Flows

The following table presents selected cash flow data from our consolidated statements of cash flows for the years indicated.

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(Unaudited)			
	(in thousands)			
Net cash flows (used in)/from operating activities	(2,271,697)	(4,275,568)	1,130,800	173,303
Net cash flows (used in)/from investing activities	(3,942,807)	(4,683,753)	(3,744,779)	(573,912)
Net cash flows from financing activities	19,555,573	7,686,887	(7,808,847)	(1,196,758)
Cash and cash equivalents	52,577,643	51,377,864	40,635,765	6,227,703

Cash Flows Used in/from Operating Activities

Our net cash flows generated from operating activities of RMB1,130.8 million (US\$173.3 million) in 2020 were primarily attributable to interest received of RMB712.4 million (US\$109.2 million), land appreciation tax paid of RMB657.3 million (US\$100.7 million), income tax paid of

RMB953.1 million (US\$146.1 million) and cash generated from operations of RMB2,028.8 million (US\$310.9 million). Cash generated from operations prior to changes of working capital was RMB7,673.5 million (US\$1,176.0 million), consisting of profit before tax of RMB10,390.5 million (US\$1,592.4 million), adjusted primarily for shares of profits and losses of joint ventures of RMB2,126.6 million (US\$325.9 million) and finance costs of RMB1,034.5 million (US\$158.5 million). Changes in working capital contributed to a net cash outflow of RMB5,644.7 million (US\$865.1 million).

Our net cash flows used in operating activities of RMB4,275.6 million in 2019 were primarily attributable to interest paid of RMB6,251.8 million, land appreciation tax paid of RMB743.7 million, income tax paid of RMB427.8 million and cash generated from operations of RMB2,312.5 million. Cash generated from operations prior to changes in working capital was RMB5,479.7 million, consisting of profit before tax of RMB13,619.1 million, adjusted primarily for changes in fair values of investment properties, net of RMB3,716.5 million, finance costs of RMB1,531.3 million and share of profits and losses of joint ventures of RMB2,933.4 million. Changes in working capital contributed to a net cash outflow of RMB3,167.2 million.

Our net cash flows used in operating activities of RMB2,271.7 million in 2018 were primarily attributable to interest paid of RMB4,186.0 million, income tax paid of RMB741.2 million, partially offset by cash generated from operations of RMB2,545.0 million. Cash generated from operations prior to changes in working capital was RMB1,160.3 million, consisting of profit before tax of RMB5,391.2 million adjusted primarily for changes in fair values of investment properties, net of RMB1,714.7 million, gain on disposal of a subsidiary of RMB1,167.4 million, finance costs of RMB1,070.1 million and share of profits and losses of joint ventures of RMB1,439.9 million. Changes in working capital contributed to a net cash inflow of RMB1,384.7 million, comprising an increase in other payables and accruals of RMB15,018.8 million, an increase in amounts due to joint ventures of RMB11,365.9 million and an increase in amounts due to associates of RMB592.2 million, partially offset by (i) an increase in properties under development of RMB18,286.8 million, (ii) an increase in restricted cash of RMB2,831.0 million and (iii) an increase in prepayments, other receivables and other assets of RMB1,568.7 million.

Cash Flows Used in/From Investing Activities

Our net cash flows used in investing activities of RMB3,744.8 million (US\$573.9 million) in 2020 was principally attributable to (i) advance to joint ventures of RMB3,924.4 million (US\$601.4 million) and (ii) purchases of items of property, plant and equipment of RMB1,179.6 million (US\$180.8 million), partially offset by (i) dividend received from joint ventures of RMB1,288.2 million (US\$197.4 million), (ii) acquisitions of subsidiaries of RMB1,157.8 million (US\$177.4 million) and (iii) disposal of a joint venture of RMB333.9 million (US\$51.2 million).

Our net cash flows used in investing activities of RMB4,683.8 million in 2019 was principally attributable to (i) purchases of items of property, plant and equipment of RMB780.8 million, (ii) investments in joint ventures of RMB1,009.1 million, (iii) derecognition of subsidiaries of RMB1,180.6 million, (iv) investment in associates of RMB781.3 million, partially offset by dividend received from joint ventures and (v) acquisitions of joint ventures of RMB1,970.1 million.

Our net cash flows used in investing activities of RMB3,942.8 million in the 2018 was principally attributable to (i) purchases of items of property, plant and equipment of RMB660.1 million, (ii) advance to joint ventures of RMB1,757.1 million and (iii) investment in associates of RMB1,130.7 million, partially offset by disposal of subsidiary of RMB1,872.9 million.

Cash Flows Used in/From Financing Activities

We had net cash flows used in financing activities of RMB7,808.8 million (US\$1,196.8 million) in 2020, primarily attributable to repayment of bank loans of RMB21,596.1 million (US\$3,309.8 million), repayment of domestic corporate bonds of RMB3,630.0 million (US\$556.3 million), dividend paid of RMB2,538.7 million (US\$389.1 million) and interest paid of RMB5,653.0 million (US\$866.4 million).

We had net cash flows from financing activities of approximately RMB7,686.9 million in 2019, primarily attributable to contribution from new bank loans of RMB22,076.5 million, the proceeds from issue of senior notes of RMB10,152.4 million and the proceeds from sales of domestic corporate bonds of RMB3,670 million.

We had net cash flows from financing activities of approximately RMB19,555.6 million in 2018, primarily attributable to contribution from new bank loans of RMB18,519.9 million and the proceeds from issue of senior notes of RMB6,111.5 million.

Bank loans and other borrowings

As of December 31, 2020, all of our bank and other loans were charged at floating interest rates except for loan balances with an aggregate amount RMB51,642.4 million (US\$7,914.5 million) were charged at fixed interest rates.

Our net borrowings (total borrowings less cash and cash equivalents and restricted cash) as of the dates indicated were as follows:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	(RMB)	(US\$)
	(in thousands)			(unaudited)
Bank loans and other borrowings included in non-current liabilities				
Lease payables	254,481	—	—	—
Long-term bank loans—secured	24,065,286	26,906,447	23,562,500	3,611,111
Long-term bank loans—unsecured	2,100,018	4,080,839	2,766,551	423,992
Senior notes—denominated in US\$, secured	16,434,662	21,380,020	23,795,517	3,646,823
Domestic corporate bonds—unsecured	19,148,518	13,115,290	4,698,834	720,128
Less: Amounts due within one year	(1,584,650)	(3,633,089)	(2,218,126)	(339,943)
Bank loans included in current liabilities				
Lease payables	64,057	—	—	—
Short-term bank loans—secured	3,617,727	4,586,628	4,186,380	641,591
Short-term bank loans—unsecured	—	—	1,127,000	172,720
Senior notes—denominated in US\$, secured	4,067,039	3,811,567	2,277,680	349,070
Domestic corporate bonds—unsecured	8,030,459	11,696,759	15,446,153	2,367,226
Current portion of long-term bank loans	1,584,650	3,633,089	2,218,126	339,943
Total	77,782,247	85,577,550	77,860,615	11,932,661
Cash and cash equivalents	52,577,643	51,377,864	40,635,765	6,227,703
Restricted cash	4,099,329	5,356,141	3,944,716	604,554
Net borrowings	21,105,275	28,843,545	33,280,134	5,100,404

The composition of our bank loans and other borrowings by maturity as of the dates indicated, were as follows:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	(RMB)	(US\$)
	(in thousands)			
Bank loans repayable				
Within one year	5,202,377	8,219,717	7,531,506	1,154,254
In the second year	8,230,792	12,301,292	8,675,083	1,329,515
In the third to fifth years, inclusive.	9,562,862	6,263,692	7,915,144	1,213,049
Beyond 5 years	6,787,000	8,789,213	7,520,698	1,152,597
Total bank loans repayable	29,783,031	35,573,914	31,642,431	4,849,415
Senior notes repayable				
Within one year	4,067,039	3,811,567	2,277,680	349,070
In the second year	3,721,729	2,415,501	7,478,837	1,146,182
In the third to fifth years inclusive	10,114,569	18,964,519	11,762,593	1,802,696
Beyond 5 years	2,598,364	—	4,554,087	697,944
Total senior notes repayable	20,501,701	25,191,587	26,073,197	3,995,892
Domestic corporate bonds repayable				
Within one year	8,030,459	11,696,759	15,446,153	2,367,227
In the second year	8,619,231	12,955,280	4,134,465	633,634
In the third to fifth years, inclusive	10,529,287	160,010	564,369	86,493
Total domestic corporate bonds repayable.	27,178,977	24,812,049	20,144,987	3,087,354
Lease payable				
Within one year	64,057	—	—	—
In the second year	67,724	—	—	—
In the third to fifth years, inclusive.	186,757	—	—	—
Beyond 5 years	—	—	—	—
Total finance lease payable	318,538	—	—	—
Total	77,782,247	85,577,550	77,860,615	11,932,661

The carrying amounts of all our bank loans and other borrowings as of the dates indicated, were denominated in the following currencies:

	As of December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	US\$
	(Unaudited)					
	(in thousands, except percentages)					
RMB	51,741,737	66.5	54,572,773	63.8	47,538,209	7,285,549
HK\$	3,737,539	4.8	3,348,322	3.9	2,288,627	350,747
US\$	22,302,971	28.7	27,656,455	32.3	28,033,779	4,296,365
Total	77,782,247	100.0	85,577,550	100.0	77,860,615	11,932,661

As of December 31, 2020, our total borrowings amounted to RMB77,860.6 million (US\$11,932.7 million), of which RMB25,255.3 million (US\$3,870.6 million) and RMB52,605.3 million (US\$8,062.1 million) were classified under current liabilities and non-current liabilities, respectively.

In the ordinary course of our business, we may consider other financing opportunities, including bank loans and other borrowings, to finance our business operations. Subsequent to December 31, 2020, we have incurred additional indebtedness. See “Description of Material Indebtedness and Other Obligations” for more details.

Restricted Cash

In line with the industry practice, our project companies are required to deposit all proceeds from pre-sales of properties into designated bank accounts as guarantees for the completion of construction. Before construction of the pre-sold properties is completed, such deposits may only be used, with the prior approval of the relevant local authorities, for purchasing construction materials, equipment, making interim construction payments and paying taxes, in each case in respect of the project from which such pre-sale proceeds were received. As of December 31, 2018, 2019 and 2020, such guarantee deposits amounted to approximately RMB4,099.3 million, RMB5,356.1 million and RMB3,944.7 million (US\$604.6 million), respectively.

Gearing Ratio

Gearing ratio is calculated as net borrowings (total borrowings, net of cash and cash equivalents and restricted cash) divided by total equity. As of December 31, 2020, our cash and cash equivalents amounted to RMB40,635.8 million (US\$6,227.7 million). As of December 31, 2020, our gearing ratio was 61.7%.

Contingent Liabilities

As of December 31, 2020, we provided guarantees to banks in respect of mortgage facilities for certain purchasers of RMB20,271.7 million (US\$3,106.8 million). Our guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates, which are generally available within one to two years after the purchasers take possession of the relevant properties.

As of December 31, 2020, we provided guarantees of approximately RMB32,939.7 million (US\$5,048.2 million) in respect of certain bank loan facilities granted to certain joint ventures and associates. See “Description of Material Indebtedness and Other Obligations—Other Obligations.”

Contractual Obligations

Our contractual obligations in connection with our property development activities primarily arise from contracted construction fees or other capital commitments for future property developments. The following table sets forth our contractual obligations as of the dates indicated.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(Unaudited)			
	(in thousands)			
Other commitments contracted but not provided for:				
Property, plant and equipment	580,847	371,999	724,360	111,013
Properties being developed for sale	10,045,197	10,535,392	8,303,602	1,272,583
Investment properties	7,366	530,916	464,421	71,176
Other commitments authorized but not contracted for:				
Investment in joint ventures	6,636,605	7,948,847	6,180,416	947,190
Total	<u>17,270,015</u>	<u>19,387,154</u>	<u>15,672,799</u>	<u>2,401,962</u>

Off-Balance Sheet Commitments and Arrangements

Except for the contingent liabilities set forth in this offering memorandum, we have not entered into any material financial guarantees or other commitments to guarantee the payment obligations of any third parties. As of December 31, 2020, we had not entered into any derivative contracts that were indexed to our shares and classified as shareholder's equity, or that were not reflected in our consolidated financial statements, nor did we have any variable interests in any uncombined entity that provided financing, liquidity, market risk or credit support to us or engaged in leasing or hedging or research and development services with us. As of December 31, 2020, we had not entered into foreign exchange capped forward contracts and foreign currency swap transactions with financial institutions to hedge the foreign exchange risk between Hong Kong dollars and Renminbi. We may enter into other similar hedging agreements in the future to manage our exposure to foreign exchange rate risk as appropriate.

Market Risks

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our bank loans, especially long-term borrowings. Borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at fixed rate expose us to fair value interest rate risk. As of December 31, 2020, all of our bank loans and other loans bore floating interest rates except for loans balances with an aggregate amount of RMB51,642.4 million (US\$7,914.5 million) at a fixed interest rate. As of December 31, 2020, our outstanding senior notes and domestic corporate bonds were denominated in U.S. dollars and RMB, respectively, and bore fixed interest rates. As of the date of this offering memorandum, we have not used any interest rate swap to hedge our exposure to interest rate risk.

An increase in interest rates may also adversely affect prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue and profits. We cannot assure you that PBOC will not raise lending rates in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. See "Risk Factors—Risks Relating to Our Business—Our profitability and results of operations are affected by changes in interest rates."

Foreign Exchange Rate Risk

We conduct our sales and purchases almost exclusively in Renminbi except that a small portion of our sales proceeds are in other currencies. Our exposure to foreign exchange risk is principally due to our U.S. dollar-denominated and Hong Kong dollar-denominated debt, our bank deposits in foreign currencies, mainly Hong Kong dollars and U.S. dollars, and our senior notes denominated in U.S. dollars. See "Description of Material Indebtedness and Other Obligations." As of December 31, 2020, we had aggregate cash and bank balances (including restricted cash balances) of RMB44,580.5 million (US\$6,832.3 million) of which RMB43,286.8 million (US\$6,634.0 million) was denominated in RMB and RMB1,293.7 million (US\$198.3 million) was denominated in other currencies.

We recognize foreign exchange gain or loss on our statement of comprehensive income due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. and Hong Kong dollars generally results in a gain arising from our U.S. and Hong Kong dollar-denominated debts and a loss arising from our bank deposits in Hong Kong dollars and U.S. dollars. A depreciation of the Renminbi

against the U.S. and Hong Kong dollars would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

Fluctuations in foreign exchange rates have had and will continue to have an impact on our business, financial condition and results of operations. See “Risk Factors—Risks Relating to the Notes—Fluctuations in the value of the Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries.” We may choose to use hedging transactions to reduce our exposure to foreign exchange rate fluctuations from time to time. For example, we may enter into non-speculative hedging or other derivative transactions, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral. As of December 31, 2020, we had not entered into foreign exchange capped forward contracts and foreign currency swap transactions with financial institutions to hedge the foreign exchange risk between Hong Kong dollars and Renminbi. We may enter into hedging agreements in the future to manage our exposure to foreign exchange rate risk as appropriate.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. As of the date of this offering memorandum, we have not been materially affected by any inflation or deflation.

Non-GAAP Financial Measures

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

- fair value gains on investment properties, net;
- other income and gains, net;
- Share of profits and loss of associates;
- finance costs;
- capitalized interest included in cost of sales;
- taxes;
- depreciation; and
- amortization.

We included share of profits and losses of joint ventures in our calculation of EBITDA to avoid any distortion of our EBITDA as a result of the substantial increase of profits from joint ventures in 2015, which we believe will better reflect our EBITDA trend. EBITDA is not a standard measure under HKFRS. As the property development business is capital-intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year. We operate in a capital-intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation and amortization, 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.

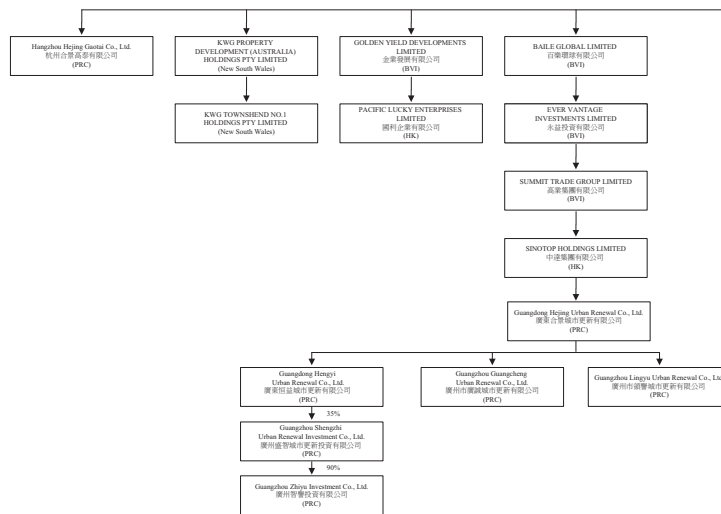
The following table reconciles our profit before tax under HKFRS to our definition of EBITDA for the years indicated.

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Profit before tax	5,391,230	13,619,053	10,062,908	1,542,208
Adjustments:				
Fair value gains on investment properties, net	(1,714,657)	(3,716,461)	(415,157)	(63,626)
Other income and gains, net	(801,187)	(2,858,916)	(1,628,096)	(249,517)
Share of profits and losses of associates	279	(513,706)	(354,669)	(54,355)
Finance costs	1,070,059	1,531,336	1,034,243	158,505
Capitalized interest included in cost of sales	542,614	2,413,117	3,231,750	495,287
Taxes	125,971	244,586	431,221	66,088
Depreciation	148,916	252,059	275,146	42,168
Amortization	8,761	11,038	11,197	1,716
EBITDA	<u>4,771,986</u>	<u>10,982,106</u>	<u>12,648,543</u>	<u>1,938,474</u>

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

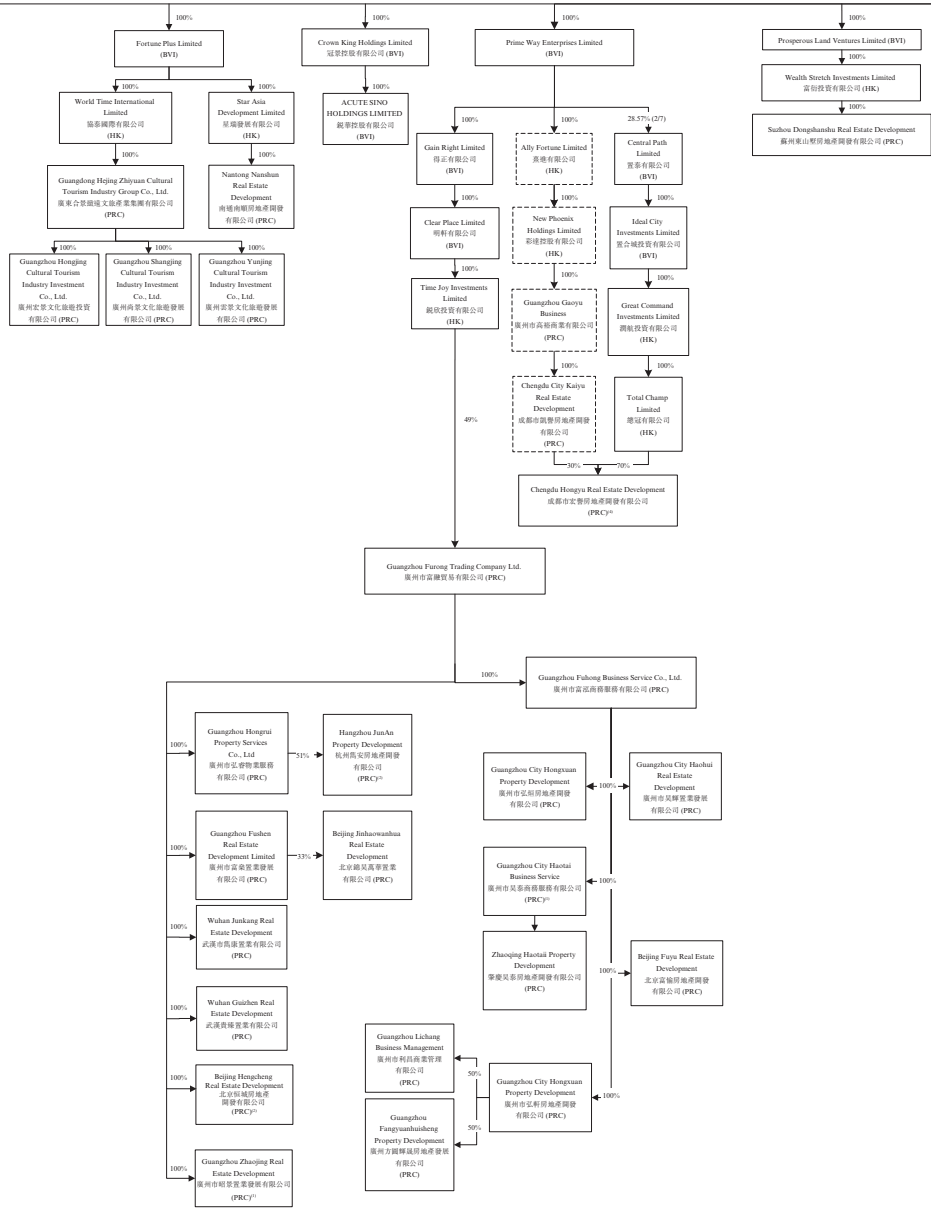
CORPORATE STRUCTURE



The following chart sets forth our corporate structure as of December 31, 2020*.

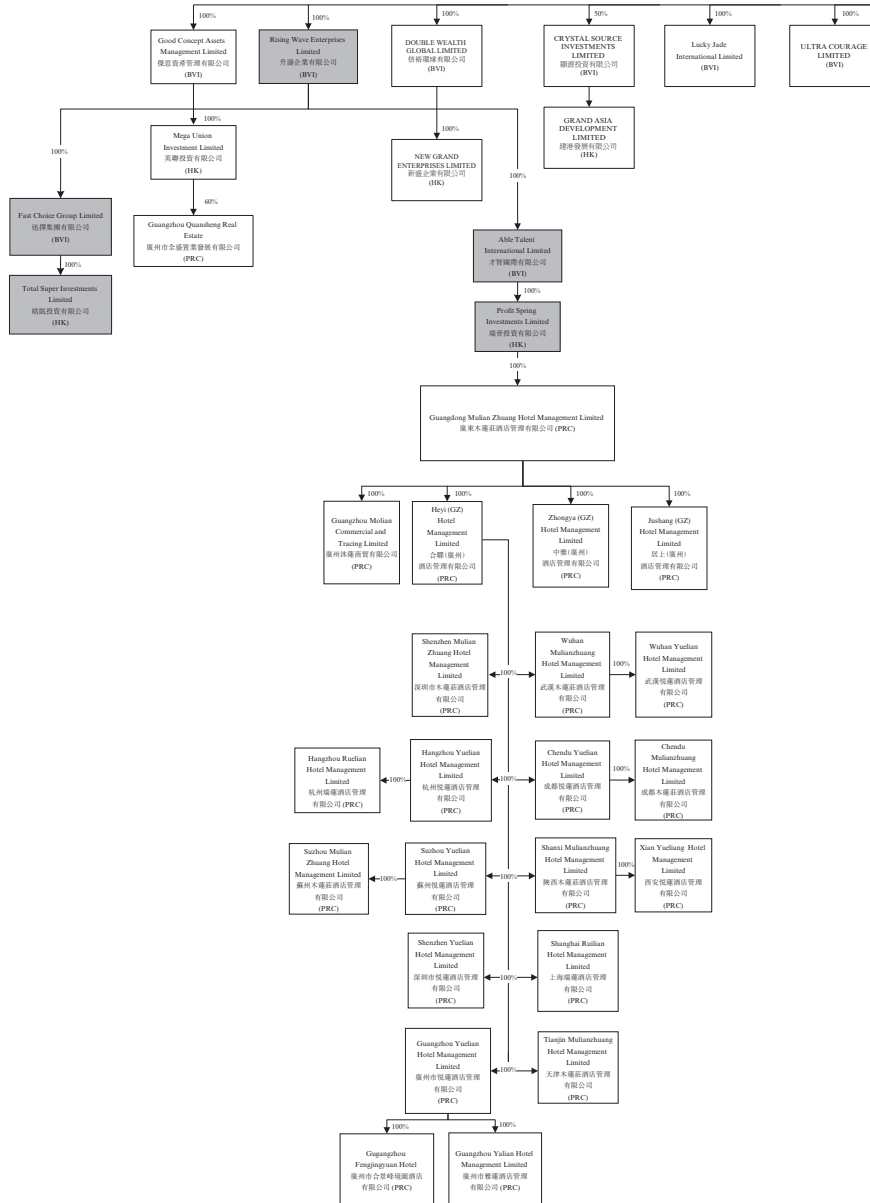


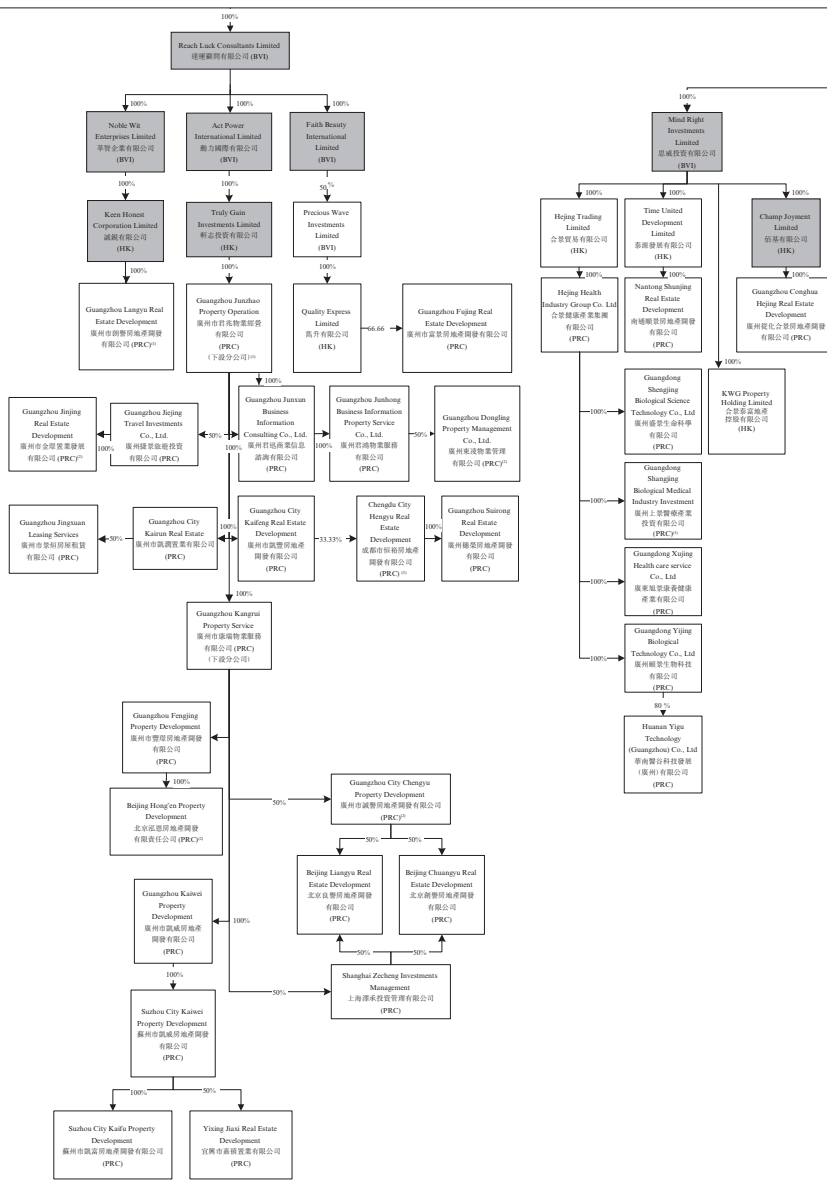
Note:

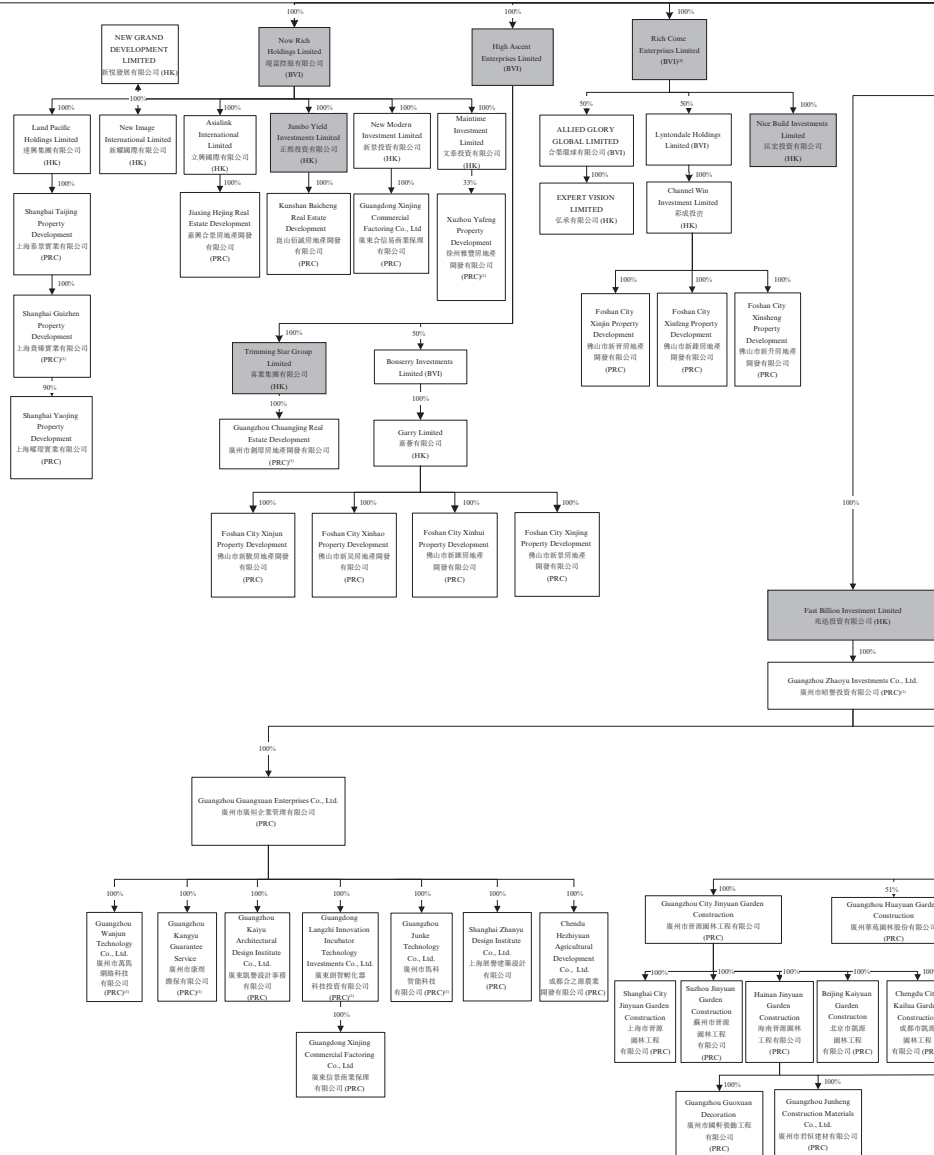
* The above chart shows our major subsidiaries as of December 31, 2020. The above chart does not show all of our subsidiaries as of the date of this offering memorandum and has not reflected the spin-off of KWG Living.

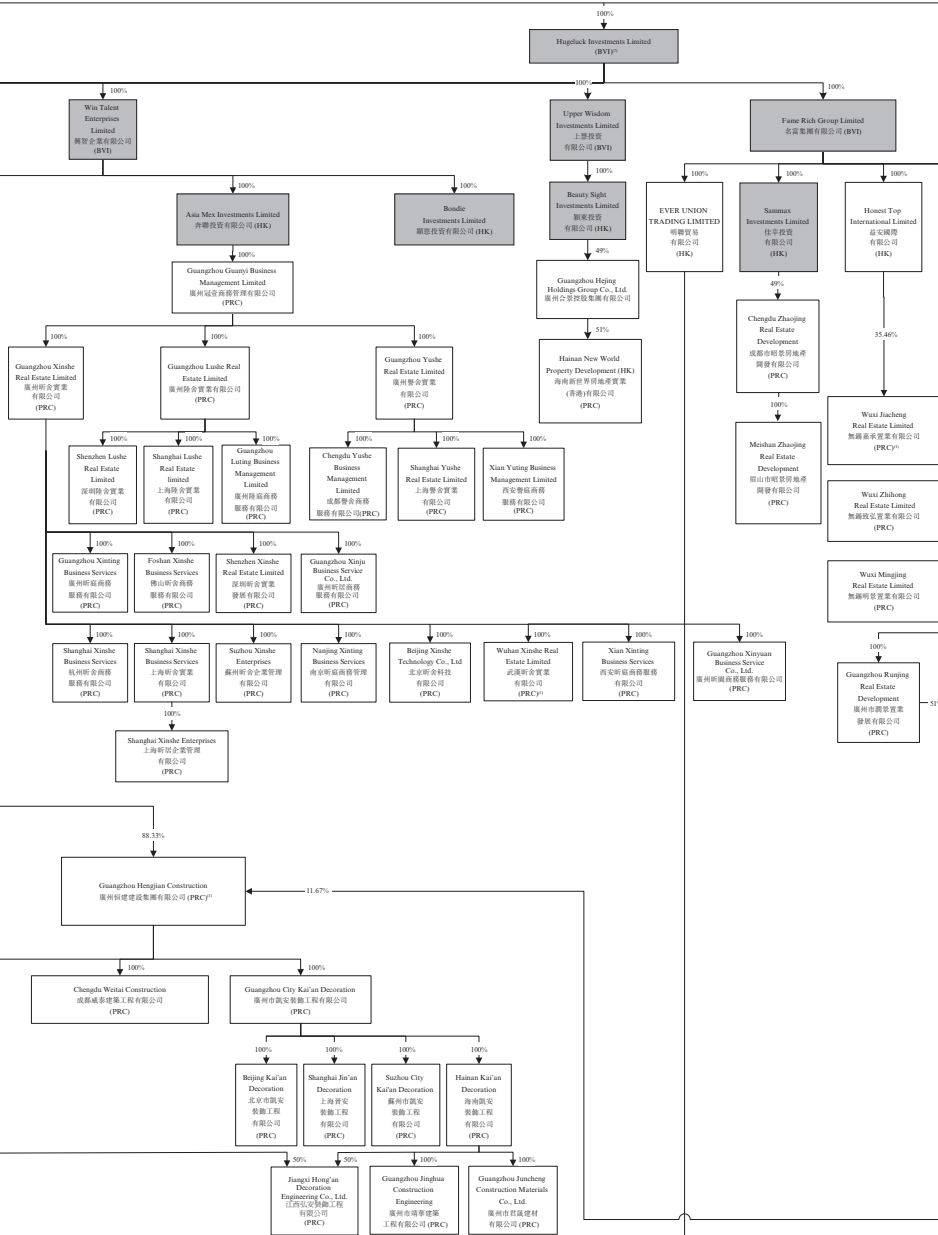


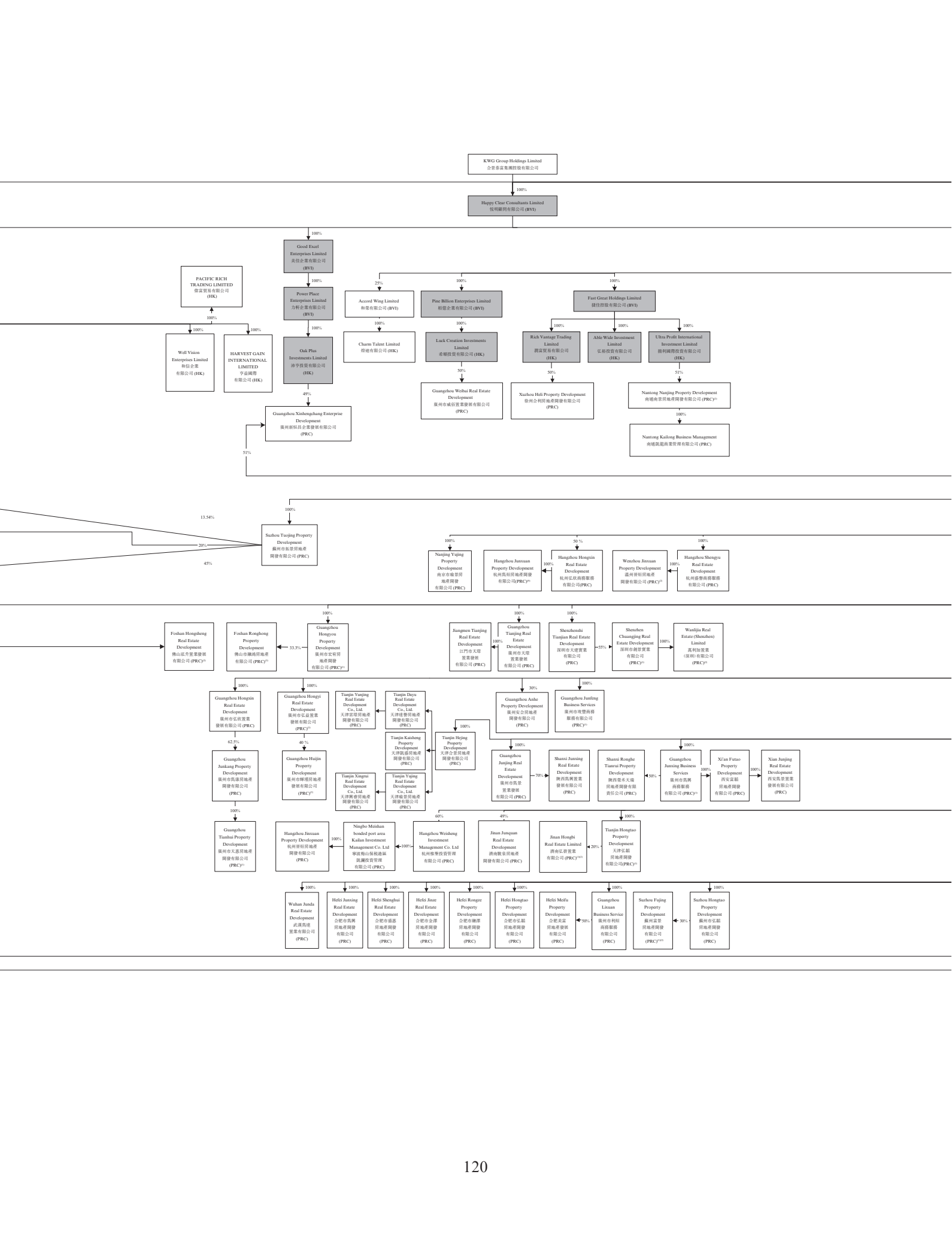
 Subsidiary Guarantees
 Unrestricted subsidiaries

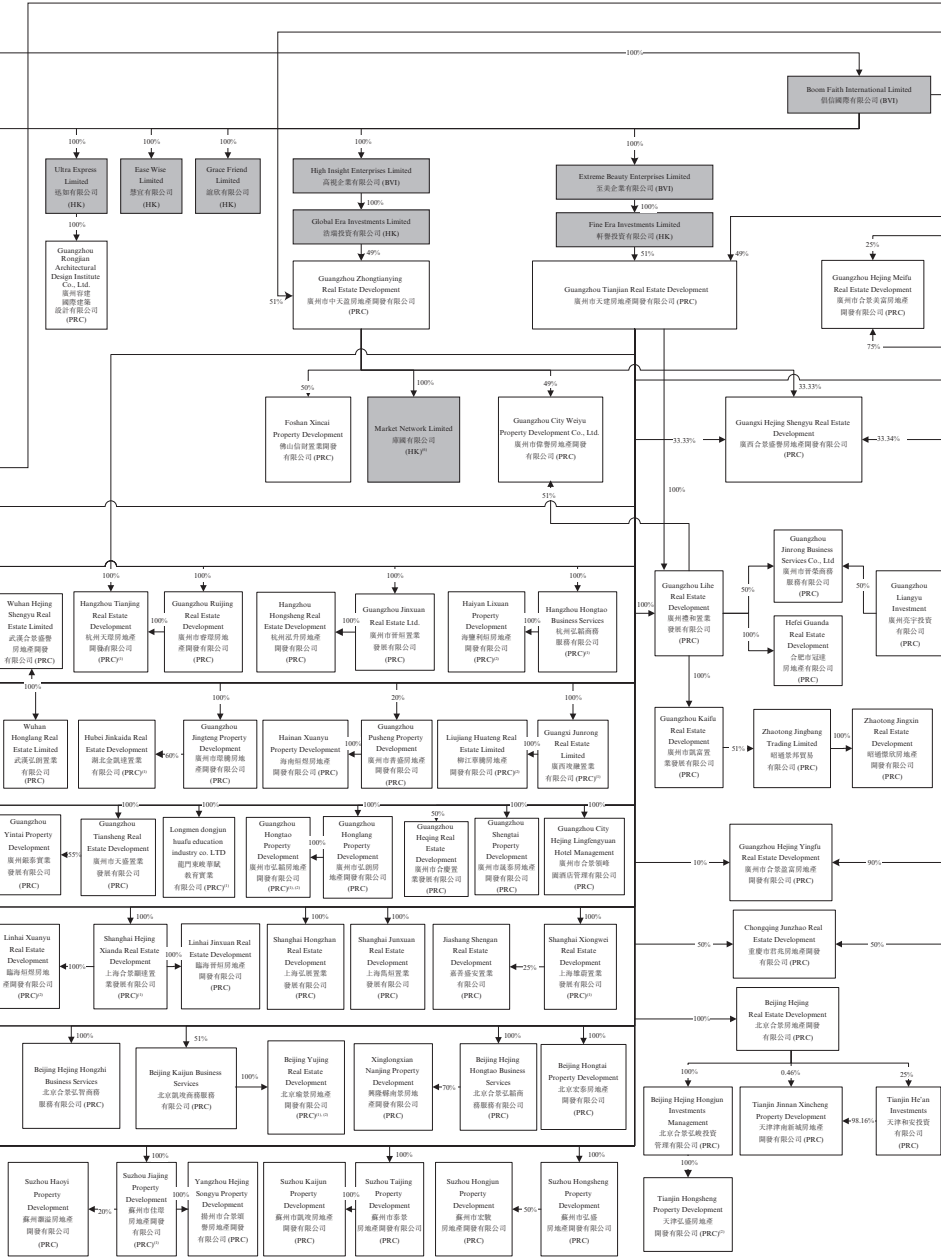


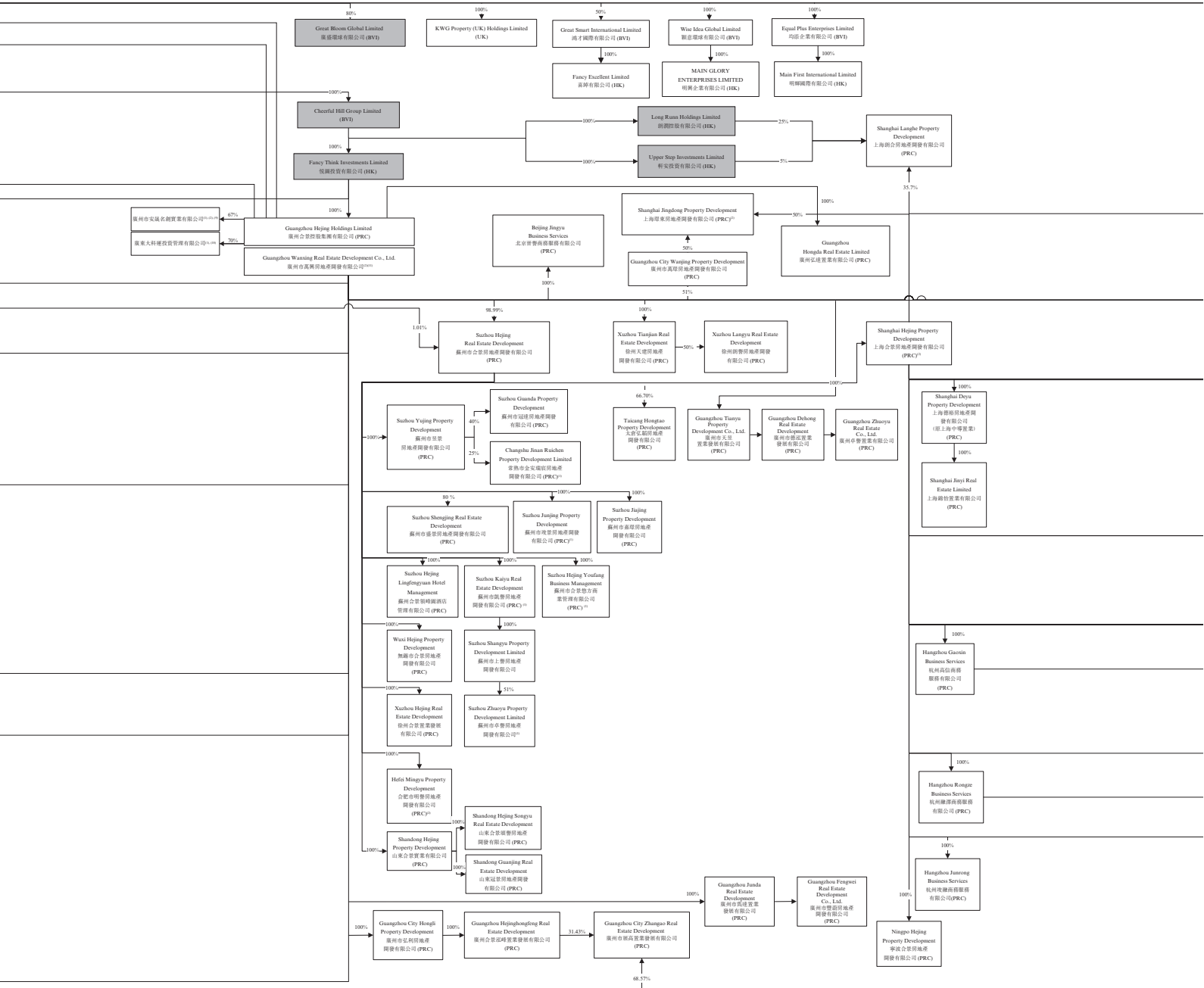


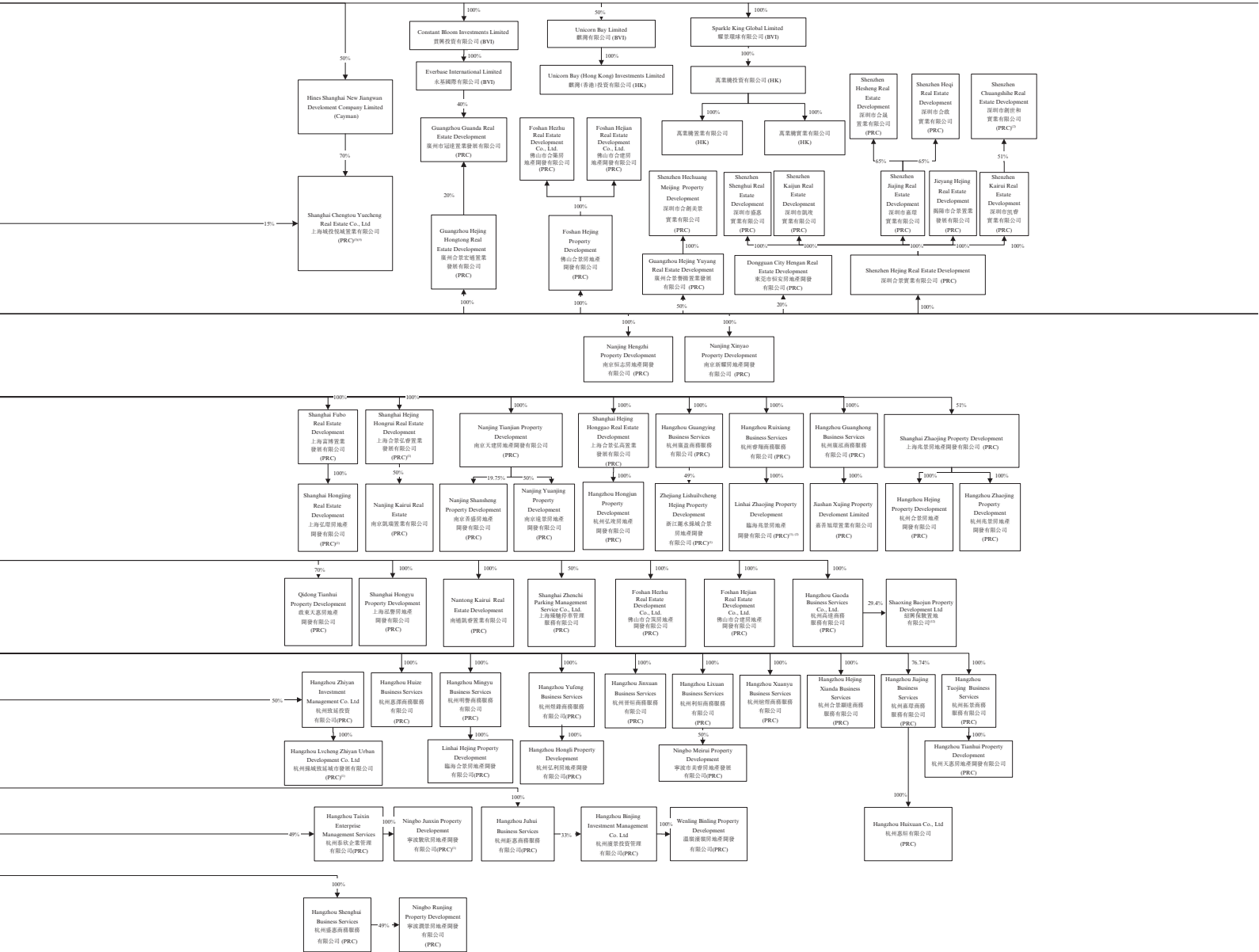


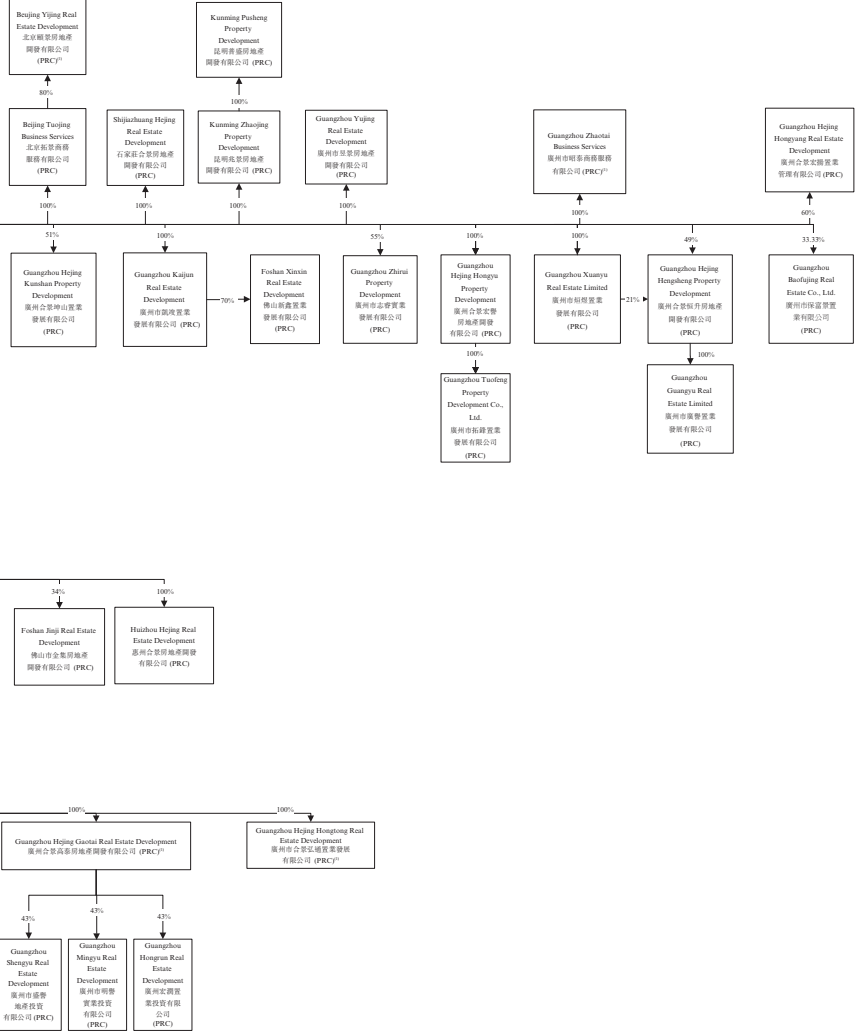












Notes:

- (1) The company's registered capital has not yet been fully paid.
- (2) Shares of this company were pledged to a PRC commercial bank or trust company under certain loan agreements.
- (3) The company did not file its annual report in time and could not be contacted by the State Administration for Industry & Commerce (the "SAIC") or its local branches at its registered business address as required by the relevant PRC laws and administrative regulations.
- (4) Our aggregate interest is 50%. See "Business—Property Development—Joint Venture Operations—Chengdu Joint Venture."
- (5) Our aggregate interest is 50%. See "Business—Property Development—Joint Venture Operations—Shanghai Joint Venture."
- (6) The capital stock of Market Network Limited (庫國有限公司) will not be pledged for the benefit of the holder of the Notes and will not form part of the Collateral. See "Description of the Notes—Security."
- (7) Formerly known as Hugeluck Investments Limited (宏祥投資有限公司).
- (8) Formerly known as Rich Come Enterprises Limited (富來企業有限公司).
- (9) Guangzhou Hejing Holding Group Co., Ltd entrusted the shares of this company to Wang Kunming and Molinlin.
- (10) Guangzhou Hejing Holding Group Co., Ltd entrusted the shares of this company to Wang Kunming and Wu Zifeng.
- (11) Guangzhou Hejing Holding Group Co., Ltd entrusted the shares of this company to Guangzhou Taihong Business Services Co., Ltd.
- (12) Hangzhou Gaoda Business Services Co.,Ltd has 29.4% interest in this company through contractual arrangements instead of equity interests.

BUSINESS

Overview

We are a large-scale PRC property developer with a leadership position in Guangzhou and an established presence in Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi'an, Kunming, Yancheng and Hong Kong. We focus on mid- to high-end residential property developments with distinctive characteristics. To diversify our earnings mix, we also develop commercial properties in prime locations as long-term investments, including office buildings, shopping malls, serviced apartments and hotels. We commenced operation of our first office property, International Finance Place, in August 2007 in Guangzhou. We also develop mid-to high-end hotels and operate some of them. We believe our investment properties and hotels will help to further strengthen our brand name. We have also engaged in property management business which we have recently spun off in October 2020. See “Recent Developments.”

Historically, we have focused our property developments in Guangzhou, the capital of Guangdong Province and one of China's largest cities, capturing the opportunities presented by its rapidly growing economy. In particular, we have focused on developments in prime locations, such as the Pearl River New Town, which in recent years has been promoted by the Guangzhou government as its CBD. We intend to maintain our leadership position in Guangzhou's property market while further enhancing our presence in Suzhou, Chengdu, Beijing, Tianjin, Shanghai, Nanning, Hangzhou, Hainan, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Nanjing, Shenzhen, Shaoxing, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Xi'an, Wuzhou, Kunming, Yancheng and Hong Kong, where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential by leveraging our expertise in the regions where we operate, with Guangzhou, Shenzhen, Foshan as its hubs for South China, Shanghai, Hangzhou, Suzhou, Hefei, for East China, Chengdu, Chongqing for Southwest China, Beijing, Tianjin for North China, Wuhan for Central China, and the Group's footprint has been expanded to Hong Kong since 2017. As of December 31, 2020, we had 175 property projects with total GFA attributable to the Group of 16.63 million sq.m.

We believe that we have been able to consistently achieve a premium price for our products in all the geographic locations where we operate. Our success is attributable to our premium quality products, distinctive designs and superior property management service, all of which have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We have also been able to enhance customer confidence in our products and retain customer loyalty as indicated by high percentages of repeat customers and client referrals of our projects. We have received various awards in recognition of our premium quality products and services and our achievements as a property development company. Some of the recent awards we have received are listed below:

- The Group was recognized as 2020 China's Top 30 Listed Real Estate Enterprises by Guandian.cn.
- The Group was recognized as 2020 Top 100 PRC Property Enterprises TOP 10 of 2020 China's Top 100 Property Companies by Profitability and 2020 Noteworthy Property Companies in Capital Market by China Index Academy.

- The Group was recognized as 2020 Top 10 PRC Property Companies Listed in Hong Kong by Comprehensive Strength by China Index Academy.
- The Group was recognized as 2020 Top 500 PRC Private Enterprises by All-China Federation of Industry and Commerce.
- The Group was awarded Golden Brick Award for Real Estate in China — 2020 Property Enterprise with Outstanding Influence by 21st Century Business Herald.
- The Group was awarded Guangdong-Hong Kong-Macau Greater Bay Area Golden Competitive Award by Time Weekly.
- The Group was recognized as 2019 Top 100 Private Enterprises in Guangdong Province (the 50th) by Guangdong Federation of Industry & Commerce.
- The Group was recognized as CIHAF 2019 Reputable PRC Property Enterprises by China Real Estate Newspaper Group.
- One of the Group's city companies, Hangzhou Company, was recognized as Property Enterprise with Outstanding Contribution in Yangtze River Delta by Yangtze River Delta Party Media Urban Development Alliance.
- One of our residential properties, Guangzhou Montkam, was recognized on 2019 Guangzhou Property Value List — Benchmark Urban Property In Guangzhou by Guangzhou Real Estate Industry Association.
- One of our residential properties, Guangzhou The Jadeite, was recognized as Mansion with Best Value for Holding in Greater Bay Area by Fang.com.
- Two of our shopping malls, Chengdu U Fun and Suzhou U Fun, were on 2019 Dianping's Must Shop Lists for Shopping Mall, in Chengdu and Suzhou respectively, by dianping.com.
- One of our shopping malls, Shanghai U Fun, was recognized as 2018 Shanghai Art Business District — Outstanding Commercial Enterprise by Shanghai Municipal Administration of Culture and Tourism, Shanghai Commission of Commerce.
- One of our shopping malls, Beijing M ● Cube, was awarded 2019 CCFA Golden Lily Shopping Mall — Best Marketing Award by China Chain Store & Franchise Association.
- One of our shopping malls, Chengdu M ● Cube, was recognized as 2020 Project Worth Investing with Commercial Value in Chengdu by Gomall.
- The Group's Commercial Segment was recognized as Outstanding Operator in Commercial Real Estate for the Year by winshang.com.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 100 PRC Property Service Enterprises — Top 18 by China Index Academy.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 100 PRC Leading Property Service Enterprises by Service Quality by China Index Academy.

- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Top 10 Enterprises in Property Service Satisfaction in Guangdong Province by Guangdong Province Urban Community Development Research Association — Guangdong Province Property Service Satisfaction Survey Committee.
- The Group's Property Management Segment, Liege Property Services, was recognized as 2019 Guangdong-Hong Kong-Macau Greater Bay Area Enterprise with Leading Position in Property Service Market by China Index Academy.
- The Group's boutique hotel brand, The Mulian Hotel, was recognized as 19th China Golden Horse Award Ceremony — Top 10 Hotel Management Companies by Jury of China Golden Horse Award.
- The Group's boutique hotel brand, The Mulian Hotel, was recognized as Asia Influential Brand — Best Aesthetically Designed Hotel in Asia by Entrip.

In 2018, 2019 and 2020, we delivered a total GFA of approximately 400,602 sq.m., 1,771,190 sq.m. and 2,155,240 sq.m., respectively, generating revenue from sale of properties of approximately RMB6,064.2 million, RMB22,761.9 million and RMB28,486.7 million (US\$4,365.8 million), respectively. During the same periods, our profit for the year was approximately RMB4,154.8 million, RMB10,056.1 million and RMB6,901.3 million (US\$1,057.7 million), respectively.

Our Competitive Strengths

Premium product quality

We believe our high-quality products, continuous product upgrades, distinctive designs and superior property management services have successfully distinguished us in the highly competitive property markets in Guangzhou and the other geographic locations where we operate. We believe that we have been able to consistently achieve a premium price for our products. We have also been able to enhance customer confidence in our products and retain customer loyalty, as demonstrated by our high percentages of repeat customers and client referrals.

- *High-quality first-of-its-kind products.* We believe that, through our experience over the past 24 years, we have developed a good understanding and insight into the preferences and trends in the property markets where we operate, and are able to competitively position our products to maximize the attractiveness and unique characteristics of each parcel of land. Over the past 24 years, we have been able to continuously and consistently provide our customers with high-quality products, some of which are first-of-their-kind. For example, our Beijing KWG Center was recognized as the Property with Best Value for Holding for the year in 2017. The Riviera in Guangzhou situated along the waterfront of Pearl River New Town is decorated with high-end products, which we believe to be popular among upgrade home buyers and the business elite. The Oriental Bund project is one of the largest integrated developments in Foshan with a total GFA of 2.8 million sq.m., comprising large bare-shell units, fitted residential units, serviced apartments, offices, shopping malls, kindergartens and schools.

- *Continuous product upgrades and distinctive designs.* We strive to combine attractive living environments (such as park, river and lake views) with distinctive interior designs, incorporating modern and creative comforts, such as intelligent security systems and hotel-style concierge services for certain projects. We make continuous efforts in product upgrades and innovation. For example, The Moon Mansion in Hangzhou was well recognized by first time home buyers and upgrade home buyers, mainly attributable to its well-designed and large usable area. The Riviera in Shunde District of Foshan was known by its designs and suitable unit sizes. We have collaborated with leading domestic and international design firms to work on critical aspects of property development such as architectural design, landscape and environmental design and interior design.
- *Superior property management service.* We have established professional property management teams to provide after-sale property management services to our purchasers of high-end and mid-end projects. To improve our property management skills, we had retained leading property management consulting firms to provide advice on property management of high-end residential projects and office buildings. From time to time, we also organize community events for our residents to improve customer relationships and foster community spirit. We believe our superior property management services help us to promote our brand name recognition and enhance customer confidence in our projects. We expect to continue to provide superior property management services through our cooperation with KWG Living.

We have received various awards in recognition of our projects and our achievements as a property development company. See “—Overview.”

Strong execution capability

We believe we are equipped with strong execution capability, as evidenced by our leadership position in Guangzhou’s high-end residential market and our ability to replicate our success outside of Guangzhou.

- We are a market leader in Guangzhou’s high-end residential market. In our experience of 25 years as a property developer, we have been able to achieve a premium price for our products consistently in all the geographic locations where we operate. In 2020, we were recognized as “2020 China’s Top 30 Listed Real Estate Enterprises” by Guandian.cn, as “2020 Top 10 PRC Property Companies Listed in Hong Kong by Comprehensive Strength” by China Index Academy, as “2020 Top 500 PRC Private Enterprises” by Au-China Federation of Industry and Commerce, and received the “Golden Brick Award for Real Estate in China — 2020 Property Enterprise with Outstanding Influence” by 21st Century Business Herald.

- We have successfully expanded our property development into Guangzhou, Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaying, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi'an, Kunming, Yancheng and Hong Kong. Our projects in these locations were well recognized. Recent examples of awards we received in these locations are as follows:

<u>Year</u>	<u>Award</u>	<u>Project/Branch</u>	<u>Awarding Institution</u>
2020	Most Watched Properties at Chongqing Property Short Video Festival	The Cosmos Chongqing	Toutiao (今日頭條)
2020	2020 Model Properties	KWG Tianjin Apex	Anjuke Tianjin
2020	Model City Projects of the Year	KWG Water Moon	Phoenix New Media Real Estate
2020	Top 8 in 2020 Top 100 Commercial Property Companies	The Group's Commercial Segment	China Index Academy
2020	2020–2021 China's Benchmark Commercial Property Projects	Suzhou U Fun	China Index Academy
2020	2020 Shanghai Art Business District — Featured Activities	Shanghai U Fun	Shanghai Municipal Administration of Culture and Tourism, Shanghai Commission of Commerce
2020	Most Popular New Shopping Malls in 2020	Chengdu M ● Cube	Trendy Life (潮生活)
2020	Most Expected Landmark Projects of Experience of the Year	Guangzhou Knowledge City U Fun	winshang.com
2020	Top 10 Urban Popular Shopping Malls	Chengdu U Fun	Trendy Life (潮生活)
2020	First-Preferred Hotel Brands of Business Traveller in China	The Mulian Hotel	China Hospitality Association
2020	Top 10 Mid-end Hotels with Limited Service in China & Top 1 of China Art-themed Hotels by Meadin Brand Index (MBI)	The Mulian Hotel	Meadin.com
2020	2020 Influential Brands in Asia — The Best New Fashion Hotel Brand of the Year	MUSTEL	Asia Pacific Hotel Association and China Real Estate Chamber of Commerce
2019	2019 Major Contributor to Urban Residential	Nanning Impression Discovery Bay	Guangxi Daily Media Group
2019	2019 Most Influential Residence	Chongqing The Moon Mansion	Chongqing Real Estate Association
2019	2019 China 5 Star Property Management Residence	Chengdu Cosmos	China Index Academy
2019	2018 Outstanding Member of Property Management Institute in Guangdong	KWG U Living	Guangdong Property Management Industry Association
2019	Residential Model across 20 years	Beijing The Core of Center	Sohu Focus

<u>Year</u>	<u>Award</u>	<u>Project/Branch</u>	<u>Awarding Institution</u>
2019	Top 10 Hotel Management Brands	The Mulian	China Restaurant Magazine
2019	2019 Top 10 Worth-expecting Residence	Hefei City Moon	Berui.com
2018	“Property Most Worth Expecting”	Linhai Project I	Tencent Real Estate
2018	“Outstanding Real Estate Enterprises throughout Hefei’s 30 years’ Accomplishment Award “	Hefei Real Estate Company	Main Online Media Alliance of Hefei Real Estate
2018	“Top 10 Investment Contribution Company in LuYang District”	Hefei Real Estate Company	Hefei Luyang District Committee, Hefei Luyang Government
2018	“6th TopDigital Creative Silver Award”	Ufun, Shanghai	TopDigital
2018	“Top 10 Commercial Landscape in Shanghai of 2017 Year End”	Ufun, Shanghai	Shanghai Business Committee, Shanghai Consumer Committee
2018	“Newly Developed Commercial Project”	Ufun, Chengdu	Chengdu Commercial Association
2018	“Commercial Property Most Worth Expecting in Chengdu”	Ufun, Chengdu	Commercial Real Estate Journal

See “—Overview” for other recent examples of awards we have received for our other projects. We believe this testifies to our strong execution capabilities in other cities in addition to Guangzhou.

Our strong execution capability is further demonstrated by our ability to adjust our strategies to maintain a balance between stable development and prudent expansion during the global financial crisis in 2008 and a period of correction for the PRC property industry in 2011, allowing us to avoid diluting our brand name and to preserve our resources for future land acquisitions. After the announcement of the various property tightening measures in 2010, we continued with our scheduled project launches and achieved satisfactory take up. After the PRC government introduced various tightening measures in 2012, we were able to record stable sales. We believe that this is due to our superior brand name, premium product quality, innovative product designs, diversified product portfolio and flexible pricing strategy as well as strong execution capability even in difficult market conditions.

Product standardization supports fast asset turnover

Since 2012, we have been developing certain standardized product criteria and operational guidelines that may be replicated across projects to shorten the time between land acquisition and pre-sales, which we aim to be between eight to ten months. We established our product standardization center in 2013 to ensure the strict implementation of these criteria and guidelines. For example, we acquired land for The Moon Mansion in December 2015 and its pre-sales commenced in August 2016. Historically, we have been able to maintain a relatively stable level of construction costs while ensuring high quality designs and interior fit-out for our residential projects by applying our standardized product criteria and operational guidelines. In addition, we continue to adjust our development strategies and have adjusted the fit-out standards of our products based on market needs and prevailing market conditions, developing more end-user oriented products targeting first-time buyers and other upgraders. For the years ended December 31, 2018, 2019 and

2020, our construction cost amounted to RMB2,335.1 million, RMB8,193.5 million and RMB7,521.8 million (US\$1,152.8 million), respectively, while GFA delivered was 400,602 sq.m. in 2018, 1,771,190 sq.m. in 2019 and 2,155,240 in 2020, respectively.

Prudent and disciplined land acquisition and expansion

We maintain a disciplined and prudent land acquisition and expansion strategy. Prior to acquiring land for a project, we perform a comprehensive feasibility study covering targeted selling price, total investment, gross profit margin and project return. If the land acquisition costs exceed our pre-set ratio of land acquisition costs to estimated revenue, we will typically not proceed with the land acquisition.

To date, we have expanded outside Guangzhou into other cities at a moderate pace. For each city we have expanded into, we have taken time to establish and strengthen our brand name, gradually increase our market share, focus our management and resources on operations to achieve economies of scale, build up our relationship with the local governments and sought opportunities to acquire more land at lower costs. We believe such an approach enables us to acquire land prudently and manage our cash flow requirements effectively. In the cities we have expanded into, our land reserves are well-located to enable a wide product range that caters to different market segments. To date, most of our land reserves have been located in China's first and second tier cities, such as Guangzhou, Shenzhen, Beijing, Shanghai, Chengdu, Suzhou, Tianjin, Hangzhou, Nanjing, Foshan, Nanning, Wuxi, Chongqing, Hainan Province and etc. which we believe to be more resilient during periods of property market downturns due to the large organic demand present in those cities. We anticipate that these cities will suffer less price correction in property market downturns. We believe our low risk business model will allow us to continue to achieve sustainable and stable growth in all property market conditions.

High-quality investment properties and hotels

To date, we have been able to roll out high-quality investment properties and hotels, including International Finance Place in Guangzhou, Global Metropolitan Plaza in Guangzhou, International Commerce Place in Pazhou, Guangzhou, Tian Hui Plaza in Guangzhou, Amazing Bay office in Shanghai, Four Points by Sheraton Guangzhou, Dongpu, W Hotel in Guangzhou, Conrad Guangzhou and the Mulian Hotel in CBD of Guangzhou, The Mulian in Huadu, the Mulian in Chengdu and The Mulian in Future Science City in Hangzhou, U Fun shopping center in Shanghai, Chengdu and Suzhou and M•Cube shopping center in Beijing. Such investment properties and hotels enhance our brand recognition as well as development track record, which in turn provides us with an advantage in our land acquisitions. Our investment properties and hotels help to reduce our exposure to fluctuations in property sales prices, provide us with stable and recurring cash flow and diversify our revenue sources. In addition, our investment properties and hotels provide us with additional financing flexibility because we have been able to mortgage certain investment properties to secure some of our general banking facilities at both onshore and offshore level. We intend to continue to roll out high-quality investment properties and premium hotels in the future. We expect that our portfolio of office buildings, shopping malls, hotels and long-term rental apartments held on a long-term basis to account for approximately 10% of our total revenue.

Strong cash flow and diversified funding sources

We have diversified our range of products through increasing our presence in commercial properties, such as hotels, shopping malls and office buildings. We have been able to maintain strong cash flows and obtain multiple channels of financing which provide us with financial flexibility. As

of December 31, 2020, our cash and cash equivalents amounted to RMB40,635.8 million (US\$6,227.7 million). We have issued certain offshore senior notes, some of which have been redeemed by us. As of December 31, 2020, we had a total amount of RMB26,073.2 million (US\$3,995.9 million) of senior notes outstanding. See “Description of Material Indebtedness and Other Obligations” for more details. We have also entered into certain onshore and offshore loan facility agreements. As of December 31, 2020, our total borrowings amounted to RMB77,860.6 million (US\$11,932.7 million). See “Description of Material Indebtedness and Other Obligations—Project Loan Agreements” and “Description of Material Indebtedness and Other Obligations—SCB 2020 Facility” for more details. Further, we have established cooperative relationships with, and received bank loans from, various PRC banks, including Bank of China, China Construction Bank, Agricultural Bank of China and Industrial and Commercial Bank of China. We have also issued domestic corporate bonds. As of December 31, 2020, we had a total amount of RMB20,145.0 million (US\$3,087.4 million) of domestic corporate bonds outstanding. See “Description of Material Indebtedness and Other Obligations—Domestic Corporate Bonds.” We believe our strong cash flow and multiple financing channels will enable us to expand steadily into our target markets and sustain long-term growth.

Proven experience in joint venture projects and strong relationship with renowned domestic and international partners

Due to our premium product quality, recognized brand name and strong execution capability, many reputable property developers are willing to cultivate working relationships with us by setting up mutually beneficial joint ventures for project developments. Such joint venture operations enable us to obtain access to land in prime locations at reasonable costs, participate in and jointly develop large scale and profitable projects with leading developers, leverage each other’s strong brand names, and enter into new locations with developers with more experience in such markets, thus lowering our execution risks and costs. For example, in 2010 and 2015, we acquired 20% and 30%, respectively, of interests in Oriental Bund from Sun Hung Kai Properties Limited, with whom we have further deepened our relationship in the joint development of projects. In 2014, we established a joint venture with Longfor Properties Co. Ltd. and Greenland Group for the development of the Rose and Ginkgo Mansion Project in Beijing and a joint venture with Shimao Property Holdings Limited and China Resources Land Limited for the development of CFC (including The Mayfair and International Finance East) Project in Finance City in Guangzhou. In 2015, we established a joint venture with Vanke Holdings Limited in Nanjing for the development of Shine City project, and jointly bid for The Moon Mansion in Hangzhou with Pingan Real Estate. In 2016, we established a joint venture with Sunac China Holdings Limited in Guangzhou for the development of the Fortunes Season. In 2017, we established a joint venture with Logan for the development of the Ap Lei Chau project. We also established a joint venture with Poly Real Estate Group Co. Ltd. in Xuzhou for the development of Exquisite Bay. See “Business—Property Development—Joint Venture Operations.” In addition, we have established strong relationships with leading architects and design firms, premier hotel operators, reputable office and retail tenants, and world-renowned financial institutions.

Seasoned management team, efficient risk control system and enhanced operational capabilities

We believe our success and future prospects depend on the quality of our people. Our management team has extensive experience in the property development industry. Certain of our key executives, including our founder and chairman, Mr. Kong Jian Min, have led the growth of our business since its inception in 1995. A number of our senior management members have been in the property development industry for more than 16 years. In recent years, while maintaining the stability of our core management team, we have recruited senior and mid-level executives with

expertise in various fields through a selective recruitment process from mainland China, Hong Kong and overseas. We believe our recruitment effort has attracted significant new management talent. To retain and motivate our workforce, we offer our employees career advancement prospects and professional skills development, which in turn sets the foundation for our continuous growth and long-term success. Since our inception, we have sought to create and maintain a corporate culture that encourages creativity and commitment. We also motivate our employees with performance-based bonuses and other incentives and career development opportunities.

In addition, we have invested significantly in our enterprise resources planning (“ERP”) system which provides us with real time and efficient risk control over the entire property development value chain including land acquisition, construction and cost management, property management and sale and cash management and after-sale customer service. For example, in mid-2015, we proactively strengthened our operation and sales management by rebuilding an in-house sales team for our own property developments dividing our markets into regions to facilitate a closer management of our projects. With the formulation of specific sales targets and a stringent appraisal system, we believe that our operational capabilities and sales have been significantly enhanced.

Our Business Strategies

Maintain leadership position in Guangzhou, enhance presence in other cities where we operate and conduct measured expansion in key regions

Our strategy is to maintain our leadership position in Guangzhou’s property market, while further enhancing our presence in the regions where we have established operations. We also intend to expand in a prudent manner into other selected cities with high growth potential, leveraging our existing expertise in the regions where we operate, such as Greater-Bay-Area, Yangtze-River-Delta Area and other areas.

Continue our focus on developing premium-quality products

We intend to continue to focus on innovative product design and premium quality by developing property projects to cater to the needs of our target customers. We will continue to supplement our residential property developments with the roll-out of more attractive investment property projects and premium hotels to reinforce the association between our brand name with prestige and quality. By cultivating our ability to develop integrated properties, we intend to seek opportunities to work with local governments in city-center development projects in order to further enhance the recognition of our brand name.

Continue to seek mutually beneficial joint venture partnerships in project development

We intend to leverage our current joint venture partners’ financial resources and expertise in developing large-scale integrated projects. In order to lower the execution risks and costs associated with existing operations and future expansion, we will continue to leverage our current experience in joint venture operations and seek mutually beneficial joint venture partnerships in project development.

Continue to adopt prudent financial policy and proactive approach to capital structure

We will continue to leverage our advanced ERP system to carefully manage costs and risk control. We will also continue to closely monitor our capital structure, cash flow and liquidity positions and carefully manage key financial measures such as our gearing ratios, interest coverage and working capital positions.

Description of Our Property Developments

Overview

As of December 31, 2020, we had 175 projects at various stages of development (as listed below), which were located in Guangzhou, Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shenzhen, Shaoxing, Huizhou, Jiangmen, Wenzhou, Dongguan, Yangzhou, Ningbo, Meishan, Chenzhou, Wuzhou, Xi'an, Kunming, Yancheng and Hong Kong. We divide our property developments into three categories:

- completed projects;
- projects under development; and
- projects held for future development.

A project is considered completed when we have received the Completed Construction Works Certified Report from the relevant government construction authorities. A project is considered to be under development immediately following the issuance of the required construction works commencement permits with respect to part or all of the project and before completion of the entire project, or immediately following the commencement of development of part or all of the project. A project is considered to be held for future development when we have signed the relevant land grant contracts or the land grant confirmation letter or received the relevant land use rights certificates but have not yet received the required construction works commencement permits.

As some of our projects comprise multiple-phase developments on a rolling basis, one project may include different phases at various stages of completion, under development or held for future development. A project comprising multiple phases is also considered to be a project under development if we have received the required construction works commencement permits with respect to at least one phase of the development.

As of December 31, 2020, we had 175 projects with a total site area of approximately 18.59 million sq.m. and a total GFA attributable to us of approximately 16.63 million sq.m. The site area information for a project is based on the relevant land use rights certificates or other approval documents from the local governments relating to the project. The total GFA of a project is calculated by multiplying its site area by the maximum permissible plot ratio as specified in the relevant land grant contracts or other approval documents from the local governments relating to the project. The total GFA of a project comprises saleable GFA and non-saleable GFA. Saleable GFA refers to total GFA less non-saleable GFA, which comprises certain communal facilities, including, among others, club houses, schools and ancillary facilities. Saleable GFA may be held for sale or held for investment, depending on our development plans. Saleable GFA held for sale refers to residential units and other properties that have been identified for sale. Saleable GFA held for investment refers to, among others, retail shop units, shopping malls, office buildings, hotels and serviced apartments, unless specifically identified for sale.

Property sales revenue is recognized after we have executed the purchase contract with a customer and have delivered the completed property to the customer. Property is pre-sold at the time when we have collected a deposit from customer and entered into a purchase subscription contract with them prior to the completion of the property but have not yet delivered the property to the customer. The property is delivered to the customer upon, among others, (i) full payment by the customer, and (ii) the property being completed, inspected and accepted as qualified. For further details, see “Regulations—The Land System of The PRC—Pre-sale and Sale” of this offering memorandum.

Information regarding payment for land premium and development costs in this offering memorandum is based solely on our internal records or estimates.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties. Some of the names for property developments may be different from the names registered with the relevant authorities, are subject to approval by the relevant authorities and may be subject to change.

The table below sets forth the GFA in sq.m. and other information of our major projects as of December 31, 2020.

No.	Project	Location	Site Area (sq.m.)	Total GFA Completed ⁽¹⁾ (sq.m.)	Total GFA Under Development ⁽²⁾ (sq.m.)	Total GFA for Future Development ⁽²⁾ (sq.m.)	Property Interest Attributable to the Group (%)	Total GFA Attributable to the Group (sq.m.)	Lambank GFA Attributable to the Group (sq.m.)	Total GFA Held for Sale (sq.m.)	Total Investment (sq.m.)	Completion Date or Expected Completion Date of the Project							
													Total GFA Completed ⁽¹⁾ (sq.m.)	Total GFA Under Development ⁽²⁾ (sq.m.)	Total GFA for Future Development ⁽²⁾ (sq.m.)	Property Interest Attributable to the Group (%)	Total GFA Attributable to the Group (sq.m.)	Lambank GFA Attributable to the Group (sq.m.)	Total Investment (sq.m.)
1	Completed Projects																		
2	International Metropolitan Plaza	Guangzhou	8,066	145,188	—	—	50%	72,594	39,761	—	39,761	2015							
3	Tian Hui Plaza (including The Riviera and Top Plaza)	Guangzhou	114,176	465,000	—	—	33.33%	154,985	44,495	—	44,495	2015-2016							
4	The Eden	Guangzhou	82,075	276,167	—	—	50%	138,084	1,542	1,542	—	2015-2016							
5	International Commerce Place	Guangzhou	13,444	100,830	—	—	50%	50,415	50,415	—	—	2016							
6	The Horizon	Guangzhou	138,013	452,654	—	—	50%	226,327	14,326	13,361	965	2016-2020							
7	Nansha River Paradise	Guangzhou	59,839	158,261	—	—	40%	63,304	6,838	—	—	2020							
8	The Jadeite	Guangzhou	8,829	38,846	—	—	40%	15,538	8,347	8,347	—	2020							
9	International Finance Place	Guangzhou	7,262	61,000	—	—	100%	61,000	—	—	61,000	2007							
10	Four Points by Sheraton Guangzhou, Dongpu	Guangzhou	6,000	35,000	—	—	100%	35,000	35,000	—	35,000	2009							
11	The Midian Hualu	Guangzhou	44,583	24,713	—	—	100%	24,713	24,713	—	24,713	2011							
12	W Hotel W Serviced Apartments	Guangzhou	10,000	80,000	—	—	100%	80,000	80,000	—	80,000	2013							
13	The Midian Guangzhou	Guangzhou	8,000	8,000	—	—	100%	8,000	8,000	—	8,000	2014							
14	Suzhou Apex	Suzhou	170,323	446,865	—	—	100%	446,865	111,834	—	111,834	2012-2018							
15	Suzhou Emerald	Suzhou	63,944	159,860	—	—	100%	159,860	1,168	1,168	—	2014-2015							
16	Leader Plaza	Suzhou	13,977	72,679	—	—	100%	72,679	23,217	23,217	—	2016							
17	Fortune Building	Suzhou	10,911	60,011	—	—	100%	60,011	32,215	32,215	—	2018							
18	Suzhou Jade Garden	Suzhou	34,194	85,485	—	—	100%	85,485	2,372	2,372	—	2018							
19	Orient Aesthetics	Suzhou	128,313	230,963	—	—	100%	230,963	3,106	3,106	—	2020							
20	Orient Moon Bay	Suzhou	28,652	57,284	—	—	100%	57,284	11,518	11,518	—	2019							
21	The Vision of the World	Chengdu	117,518	565,000	—	—	50%	283,652	52,867	—	52,867	2011-2014							
22	Fragrant Cosmos	Chengdu	186,705	888,438	—	—	100%	888,438	239,669	191,168	220,501	2011-2020							
23	La Villa	Beijing	376,150	490,000	—	—	100%	490,000	1,771	—	1,771	2010-2016							
24	Beijing Apex	Beijing	88,243	200,372	—	—	50%	100,186	8,097	8,097	—	2015-2017							
25	MoCute	Beijing	5,475	16,243	—	—	50%	104,774	27,518	27,518	—	2015-2019							
26	Summer Terrace	Beijing	7,223	27,468	—	—	100%	16,243	16,243	—	16,243	2016							
27	Uptown Riverside II	Beijing	17,771	124,600	—	—	100%	124,600	97,990	90,008	7,982	2020							
28	Rose and Ginseng Mansion	Beijing	136,680	378,423	—	—	33%	124,880	27,162	27,162	—	2016							
29	International Metropolis Plaza	Shanghai	26,053	78,160	—	—	75.5%	59,011	29,776	—	29,776	2016-2017							
30	The Mulian Hangzhou	Nanjing	11,471	100,721	—	—	100%	100,721	60,462	—	60,462	2019							
31	The Moon Mansion	Nanjing	2,996	17,610	—	—	100%	17,610	17,610	—	17,610	2019							
32	Sky Ville	Hangzhou	142,133	213,200	—	—	51%	108,732	1,564	1,564	—	2018-2019							
33	Shine City	Hangzhou	18,778	56,334	—	—	100%	56,334	1,129	1,129	—	2020							
34	City Moon	Hangzhou	66,236	152,204	—	—	50%	76,102	7,699	7,699	—	2020							
35	Park Mansion	Nanjing	55,308	171,110	—	—	50%	85,555	8,219	8,219	—	2020							
36	Joyful Season	Hefei	36,994	171,110	—	—	100%	171,110	81,386	81,386	—	2020							
37	Exquisite Bay	Hefei	84,837	101,804	—	—	50%	101,804	1,325	1,325	—	2020							
38	Summer Season	Wuhan	114,858	229,715	—	—	60%	50,902	1,700	1,700	—	2019-2020							
39	Majestic Mansion	Xuzhou	47,989	306,352	—	—	50%	137,829	73,873	73,873	—	2019-2020							
40	Star City	Jiaying	55,353	105,171	—	—	50%	153,176	3,437	3,437	—	2018-2020							
41	Noble Peak	Jiaying	33,001	116,642	—	—	100%	105,171	8,583	8,583	—	2020							
42	Top of World Residence I	Jiaying	37,011	66,002	—	—	25%	29,161	741	741	—	2019							
43	Top of World Residence II	Taizhou	50,604	92,528	—	—	100%	66,002	2,349	2,349	—	2019							
44	Jinan Zhanqiu Project	Jinan	205,800	308,700	—	—	100%	308,700	1,948	1,948	—	2020							
45	Brown Stone Life	Changshu	53,530	155,939	—	—	100%	101,208	10,342	10,342	—	2020							
46	Liu Xiang Mansion	Lishui	86,633	60,589	—	—	49%	151,263	98,862	98,862	—	2020							
47	Oriental Mansion	Wuxi	52,841	116,250	—	—	40%	90,366	11,973	11,973	—	2019							
48	Shuoqing Project	Wuxi	159,067	222,694	—	—	25%	17,397	6,367	6,367	—	2019							
49	The Horizon	Jiangmen	49,174	113,101	—	—	49%	76,410	8,287	8,287	—	2019							
50	Wenzhou	Ningbo	21,427	53,568	—	—	20%	27,839	895	895	—	2020							
51	Ningbo Beilun Project	Ningbo	43,850	107,433	—	—	50%	55,678	10,324	10,324	—	2020							
52	Mesihan Apex	Mesihan	53,469	133,672	—	—	50%	27,839	908	908	—	2020							
53	Residual Properties						24.9%	55,451	—	—	55,451	2020							
54							100%	37,613	—	—	37,613	2020							
55							100%	113,101	—	—	113,101	2020							
56							49%	26,248	—	—	26,248	2020							
57							49%	52,642	—	—	52,642	2020							
58							100%	133,672	—	—	133,672	2020							
59								28,929	—	—	28,929	2020							
60								35,431	—	—	35,431	2020							

No.	Project	Location	Site Area (sq.m.)	Total GFA Completed ⁽¹⁾ (sq.m.)	Total GFA Under Development ⁽¹⁾ (sq.m.)	Total GFA for Future Development ⁽²⁾ (sq.m.)	Total GFA Attributable to the Group	Property Interest Attributable to the Group	Total GFA Attributable to the Group (sq.m.)	Landbank GFA Attributable to the Group	Held for Investment (sq.m.)	Completion Date or Expected Completion Date of the Project
123	The One	Hefei	82,645	82,610	3,403	79,277	165,290	80%	132,232	98,501	—	2024
124	The Buttonwood Season I	Wuhan	50,888	50,888	40,844	—	91,598	100%	91,598	16,445	—	2022
125	The Buttonwood Season II	Wuhan	94,327	94,327	47,877	—	142,204	100%	142,204	—	—	2019-2021
126	Xuzhou Tongshan Project I	Xuzhou	60,584	39,930	32,770	—	72,700	33%	23,991	5,777	—	2021
127	Xuzhou Tongshan Project II	Xuzhou	86,948	—	104,338	—	154,847	33%	34,432	34,432	—	2021
128	Oriental Milestone	Xuzhou	87,351	—	154,847	—	154,847	100%	154,847	152,633	—	2022
129	Linhai Mansion	Tai'zhou	35,585	—	99,638	—	99,638	100%	99,638	90,272	—	2021
130	Star Mansion	Tai'zhou	22,566	—	56,415	—	56,415	33%	18,617	15,338	—	2021
131	Lead Peak Mansion	Tai'zhou	15,237	—	33,521	—	33,521	100%	33,521	31,626	—	2021
132	Jinan Zhang Mia Tun C6# Project	Jinan	51,644	—	130,024	—	130,024	20%	26,005	26,005	—	2021-2022
133	Jinan Zhang Mia Tun C8# Project	Jinan	10,337	—	130,067	—	130,067	20%	26,013	26,013	—	2021-2022
134	The Riviera Chengqing	Chongqing	17,686	17,686	46,517	—	46,517	100%	46,517	46,517	4,271	2020-2022
135	The Cosmos Chengqing	Chongqing	107,434	107,068	130,861	—	286,051	39%	391,251	182,428	103,623	2020-2022
136	The Moon Mansion	Chongqing	47,873	65,078	284,183	—	368,809	100%	368,809	15,693	—	2021
137	Splendid City	Chongqing	62,569	24,813	69,040	—	93,883	30%	46,927	34,448	—	2021
138	Mansion of Jasper	Chongqing	62,025	—	74,431	—	74,431	50%	37,216	34,254	—	2021
139	Jade Moon Villa	Chongqing	94,827	—	142,240	—	142,240	50%	71,120	69,949	—	2021
140	Juzhou Tianyi Huayuan	Chongqing	86,468	31,579	86,468	—	118,047	66.7%	78,737	68,566	—	2019-2021
141	Exquisite Palace	Taiwan	42,360	—	93,192	—	93,192	185%	41,936	38,498	—	2021
142	Vision of the World	Zhaoqing	60,384	92,831	—	100,399	193,230	100%	193,230	119,638	—	2019-2023
143	River View Mansion	Zhaoqing	62,264	94,421	92,371	—	186,792	33%	61,641	34,991	—	2020-2023
144	The Moon Mansion	Zhongshan	31,679	59,833	64,448	18,125	142,406	50%	71,203	50,086	—	2020-2021
145	Serenity in Prosperity	Nanning	136,835	201,666	3,387	—	202,253	31%	104,679	7,812	7,812	2019-2021
146	Oriental Beauty	Nanning	80,458	137,304	23,612	—	169,916	70%	112,641	11,045	—	2020-2022
147	Central Mansion (formerly known as Nantong Chongchuan Project)	Nanning	21,986	103,051	63,523	—	166,574	70%	112,641	27,426	—	2019-2021
148	The Moon Mansion	Luzhou	83,287	103,051	286,627	502,664	1,126,410	100%	1,126,410	1,014,263	—	2020-2022
149	Fortunes Season	Luzhou	383,343	337,119	135,310	—	135,310	51%	69,008	62,145	—	2021
150	KWG Topcham City Center	Shenzhen	22,376	—	83,610	—	83,610	55%	45,986	45,590	—	2020-2023
151	Grand Oasis	Shenzhen	10,355	—	37,291	—	37,291	37%	13,807	263,425	263,425	2021
152	Life in Yueshan County	Huizhou	214,883	122,199	111,314	141,778	372,291	100%	60,514	60,514	—	2021
153	Huizhou Longmen Project-Educational#[2019]0 14	Huizhou	60,514	12,511	48,003	—	60,514	100%	60,514	108,064	—	2021-2022
154	Jiangmen Apex International	Jiangmen	50,493	23,512	108,295	—	131,807	100%	131,807	108,064	—	2021-2022
155	Art Wanderland	Dongguan	95,977	143,765	67,385	—	211,150	12.5%	26,394	49,629	—	2021-2023
156	Dongguan Hengli Project	Dongguan	111,778	—	248,147	—	248,147	20%	49,629	49,629	—	2021-2023
157	Yangzhou Apex	Yangzhou	82,751	108,824	89,032	—	197,856	80%	158,285	130,724	—	2020-2021
158	Cloud Mansion	Ningbo	36,731	—	84,481	—	84,481	50%	42,241	37,750	—	2022
159	River State	Meishan	136,848	—	178,008	164,113	342,121	34%	116,321	109,530	—	2021-2024
160	Chenzhou Wangxian Eco-tourism Project	Chenzhou	121,066	—	145,279	—	145,279	50%	72,640	72,144	—	2021-2024
161	KWG Tusholdings Ice Snow	Wuzhou	94,836	—	199,613	141,797	341,410	75%	256,058	255,761	—	2021-2024
162	Meet	Xi'an	4,648	—	37,186	—	37,186	100%	37,186	30,741	6,138	2022
163	Salar de Uyuni	Kunming	158,020	—	245,160	265,059	510,219	51%	260,212	258,683	—	2021-2024
164	Hong Kong Ap Lei Chau Project	Hong Kong	11,761	—	70,800	—	70,800	50%	35,400	35,400	—	2021-2022
165	Upper RiverBank	Hong Kong	9,721	—	53,465	—	53,465	50%	26,733	26,733	—	2021
166	Paradise by Moony Sky	Guangzhou	87,847	—	42,554	—	42,554	70%	29,788	22,703	7,085	2022
Projects Held for Future Development												
167	Haiman Wenchang Changsa Project	Hainan	50,646	—	—	75,969	75,969	100%	75,969	75,969	—	2023
168	Jin Yue Fu	Tianjin	60,474	—	—	96,759	96,759	100%	96,759	96,759	—	2022
169	Jiaxing CRH New Town Project	Jiaxing	103,698	—	—	382,780	382,780	100%	382,780	316,888	65,892	2022-2024
170	Shenzhen Bantian Project	Shenzhen	19,890	—	—	119,340	119,340	100%	119,340	102,370	16,970	2024
171	Shenzhen Longhua Project	Shenzhen	33,604	—	—	180,612	180,612	50%	90,306	90,306	—	2024
172	Huizhou Longmen Project-Educational#[2019]011	Huizhou	10,679	—	—	10,679	10,679	100%	10,679	—	10,679	2022
173	Kunming Zhaoteng Project #17-28 ⁽³⁾	Kunming	45,712	—	123,422	—	123,422	55%	67,882	67,882	—	2022
174	Yancheng Zhaoteng Project #17-29 ⁽³⁾	Kunming	58,971	—	159,222	—	159,222	55%	87,572	87,572	—	2023
175	Yancheng High-tech District Project	Yancheng	230,139	—	—	690,417	690,417	100%	690,417	595,417	95,000	2022-2024
Total			18,586,953	20,919,115	12,152,544	8,876,378	41,948,037	28,653,164	16,629,387	14,221,160	2,408,227	

Notes:

- (1) “Total GFA completed” and “total GFA under development” data are derived from our internal records.
- (2) “Total GFA for future development” data are derived from our internal records and estimates.
- (3) As of the date of this offering memorandum, we have not obtained all the relevant land use rights certificates for all parcels of land for these projects. See “Risk Factors—Risks Relating to Our Business—We may not always be able to obtain land use rights certificates with respect to certain parcels of land in connection with which we have entered into various contractual arrangements.”

The commencement date relating to each project or each phase of a project refers to the date on which construction commenced on the first building of the project or phase. The completion date set out in the descriptions of our completed property developments refers to the date on which the Completed Construction Works Certified Report was obtained for each project (or each phase of a multi-phase project). For projects or phases under development or held for future development, the completion date of a project or phase reflects our best estimate based on our current development plans.

As of the date of this offering memorandum, there were several parcels of land Kunming Zhaotong Project #17–28, Kunming Zhaotong Project #17–29, Lakeside Mansion and Guangzhou Nansha Project with respect to which we had been issued or entered into land grant confirmation letters or land grant contracts but had not obtained all the land use rights certificates. We cannot assure you that we will be able to obtain the land use rights certificates with respect to these parcels of land in a timely manner, or at all, and we have not commenced any construction or preparation for construction relating to these parcels of land without a construction permit. Under the Law of the Administration of Urban Property of the PRC and relevant pre-sale regulations, we are not allowed to engage in any pre-sale activity prior to, among other things, obtaining land use rights certificates.

The following map illustrates the locations of our major projects and the total approximate saleable GFA attributable to the Group of these locations as of December 31, 2020.

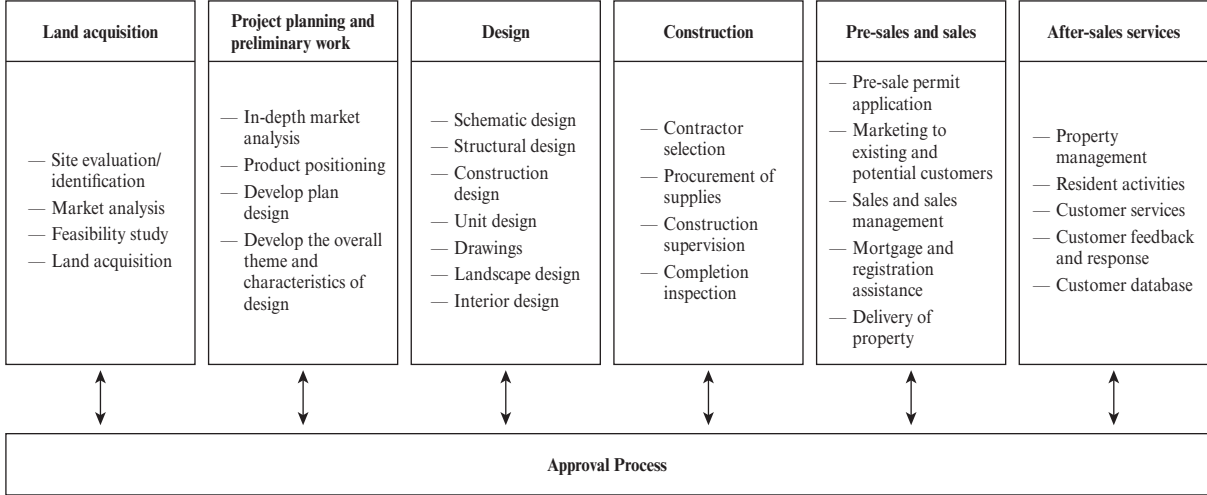


Project Overview

- Guangzhou - 35 projects**
 Total Attributable GFA approximately 4,217,000 sqm
 The Summit
 International Metropolitan Plaza
 Tian Hill Plaza (including The Riviera and Top Plaza)
 KWG Flourishing Biotech Square (formerly known as The Star)
 Top of World
 The Eden
 Paradise by Moony Sky
 Essence of City
 International Commerce Place
 CSC (including Mayfair and International Finance East)
 The Horizon
 Blooming River
 Nansha River Paradise
 The Jadeite
 V-city
 Montkam
 E-city
 Guangzhou Luogang M-Cube
 Ke Xian Center (formerly known as KWG Center)
 The Beryl (Guangzhou Development Area Hotel A Project)
 The Beryl (Guangzhou Development Area Hotel B Project)
 Landmark Arte (formerly known as The Corniche)
 Clover Shades
 The Emerald
 Guangzhou Biotech Park (formerly known as Guangzhou Southern Medical Industrial Park)
 Longyati Mansion (formerly known as Guangzhou Conghua City South Project)
 Dreams Garden (formerly known as Guangzhou Conghua City North Project)
 Lakeside Mansion
 Richmond Greenville
 Guangzhou Nansha Project
 jfp
 Four Points by Sheraton Guangzhou, Dongpu
 The Mullan Hudu
 W Hotel/W Serviced Apartments
 The Mullan Guangzhou
- Foshan - 5 projects**
 Total Attributable GFA approximately 1,235,000 sqm
 Oriental Bund
 The Riviera
 One Palace
 Foshan Apex
 China Image
- Huizhou - 3 projects**
 Total Attributable GFA approximately 335,000 sqm
 Life in Yuehan County
 Huizhou Longmen Project-Educational#(2019)011
 Huizhou Longmen Project-Educational#(2019)014
- Shenzhen - 4 projects**
 Total Attributable GFA approximately 317,000 sqm
 Shenzhen Bantian Project
 KWG Topchain City Center
 Grand Oasis
 Shenzhen Longhua Project
- Zhaoqing - 2 projects**
 Total Attributable GFA approximately 109,000 sqm
 Vision of the World
 River View Mansion
- Jiangmen - 2 projects**
 Total Attributable GFA approximately 109,000 sqm
 The Horizon
 Jiangmen Apex International
- Hong Kong - 2 projects**
 Total Attributable GFA approximately 62,000 sqm
 Hong Kong Ap Lei Chau Project
 Upper RiverBank
- Dongguan - 2 projects**
 Total Attributable GFA approximately 62,000 sqm
 Art Wanderland
 Dongguan Hengli Project
- Zhongshan - 1 project**
 Total Attributable GFA approximately 50,000 sqm
 The Moon Mansion
- Yancheng - 1 project**
 Attributable GFA approximately 690,000 sqm
 Yancheng High-tech District Project
- Suzhou - 12 projects**
 Total Attributable GFA approximately 451,000 sqm
 The Sapphire
 Suzhou Apex
 Suzhou Emerald
 Leader Plaza
 Fortune Building
 Suzhou Jade Garden
 Orient Aesthetics
 Orient Moon Bay
 Swan Harbor Park
 Lanar River
 Blessedness Seasons
 Moonlit River
- Jiaxing - 4 projects**
 Total Attributable GFA approximately 398,000 sqm
 Majestic Mansion
 Star City
 Jiaxing CRI New Town Project
- Shanghai - 7 projects**
 Total Attributable GFA approximately 356,000 sqm
 International Metropolis Plaza
 Shanghai Apex
 Shanghai Sapphire
 Amazing Bay
 Vision of World
 Glory Palace
 Shanghai Biotech Park (formerly known as Shanghai Qingsu Project)
- Hangzhou - 9 projects**
 Total Attributable GFA approximately 271,000 sqm
 The Mullan Hangzhou
 The Moon Mansion
 Sky Villa
 Pull Oriental
 Urban Artwork
 Malus Moon
 Oriental Dawn
 Precious Mansion
 Season Mix
- Hefei - 4 projects**
 Total Attributable GFA approximately 232,000 sqm
 Water Moon
 City Moon
 The One
 Park Mansion
- Xuzhou - 5 projects**
 Total Attributable GFA approximately 209,000 sqm
 Exquisite Bay
 Fragrant Season
 Xuzhou Tongshan Project I
 Xuzhou Tongshan Project II
 Oriental Milestone
- Taizhou - 5 projects**
 Total Attributable GFA approximately 149,000 sqm
 Top of World Residence I
 Top of World Residence II
 Lihua Mansion
 Star Mansion
 Lead Peak Mansion
- Yangzhou - 1 project**
 Total Attributable GFA approximately 131,000 sqm
 Yangzhou Apex
- Wenzhou - 1 project**
 Total Attributable GFA approximately 71,000 sqm
 Cullinan Mansion
- Taicang - 1 project**
 Total Attributable GFA approximately 69,000 sqm
 Jinzhu Tianyi Huayuan
- Wuxi - 3 projects**
 Total Attributable GFA approximately 1083,000 sqm
 Oriental Mansion
 Exquisite Palace
 Star Mansion
- Nantong - 3 projects**
 Total Attributable GFA approximately 46,000 sqm
 Serenity in Prosperity
 Oriental Beauty
 Central Mansion (formerly known as Nantong Chongchuan Project)
- Ningbo - 3 projects**
 Total Attributable GFA approximately 43,000 sqm
 Ningbo Beilun Project
 Parkview Palace
 Cloud Mansion
- Nanjing - 3 projects**
 Total Attributable GFA approximately 42,000 sqm
 Shine City
 South Bank Palace
 Ruyi Palace
- Changshu - 2 projects**
 Total Attributable GFA approximately 18,000 sqm
 Fragrant Season
 Brown Stone Life
- Lishui - 1 project**
 Total Attributable GFA approximately 6,000 sqm
 Liu Xiang Mansion
- Shaoxing - 1 project**
 Total Attributable GFA approximately 1,000 sqm
 Shaoxing Project
- Tianjin - 4 projects**
 Total Attributable GFA approximately 929,000 sqm
 Jinan New Town
 Tianjin The Cosmos
 Jin Yue Fu
- Beijing - 11 projects**
 Total Attributable GFA approximately 589,000 sqm
 Fragrant Seasons
 La Villa
 Beijing Apex
 M-Cube
 Summer Terrace
 Uptown Riverside I
 Uptown Riverside II
 Rose and Ginkgo Mansion
 The Core of Center (Beijing Nulanshan Complex Project)
 The Core of Center (Beijing Nulanshan 107# Project)
 New Chang'an Mansion
- Jinan - 3 projects**
 Total Attributable GFA approximately 151,000 sqm
 Jinan Zhangguo Project
 Jinan Zhang Ma Tun C&P Project
 Jinan Zhang Ma Tun C&P Project
- Liuzhou - 2 projects**
 Total Attributable GFA approximately 1,088,000 sqm
 The Moon Mansion
 Fortunes Season
- Chengdu - 5 projects**
 Total Attributable GFA approximately 928,000 sqm
 The Vision of the World
 Chengdu Cosmos
 Chengdu Sky Villa
 Yunshang Retreat
 The Jadeite
- Nanning - 7 projects**
 Total Attributable GFA approximately 928,000 sqm
 The Core of Center
 International Finance Place
 Top of World
 Fragrant Season
 Impression Discovery Bay I
 Impression Discovery Bay II
 Emerald City
- Hainan - 4 projects**
 Total Attributable GFA approximately 570,000 sqm
 Pearl Coast
 Villa Como
 Egret Bay
 Hainan Wenchang Changsa Project
- Chongqing - 6 projects**
 Total Attributable GFA approximately 487,000 sqm
 The Riviera Chongqing
 The Cosmos Chongqing
 The Moon Mansion
 Splendid City
 Mansion of Jasper
 Jade Moon Villa
- Kunming - 3 projects**
 Total Attributable GFA approximately 415,000 sqm
 Salar de Uyuni
 Kunming Zhaotong Project #17-29
 Kunming Zhaotong Project #17-29
- Wuzhou - 1 project**
 Total Attributable GFA approximately 256,000 sqm
 KWG Tusholdings Ice Snow
- Wuhan - 3 projects**
 Total Attributable GFA approximately 232,000 sqm
 Joyful Season
 The Buttonwood Season I
 The Buttonwood Season II
- Meishan - 2 projects**
 Total Attributable GFA approximately 139,000 sqm
 Meishan Apex
 River State
- Chenzhou - 1 project**
 Total Attributable GFA approximately 72,000 sqm
 Chenzhou Wangxian Eco-tourism Project
- Xi'an - 1 project**
 Total Attributable GFA approximately 37,000 sqm
 Meet

Property Development

We primarily engage in the development and sale of quality residential properties in Guangzhou, Suzhou, Chengdu, Beijing, Tianjin, Shanghai, Nanning, Hangzhou and Hainan Province. Although each project development is unique and is designed to cater to the preferences of specific target markets, the diagram below summarizes the major stages typically involved in the development of a property.

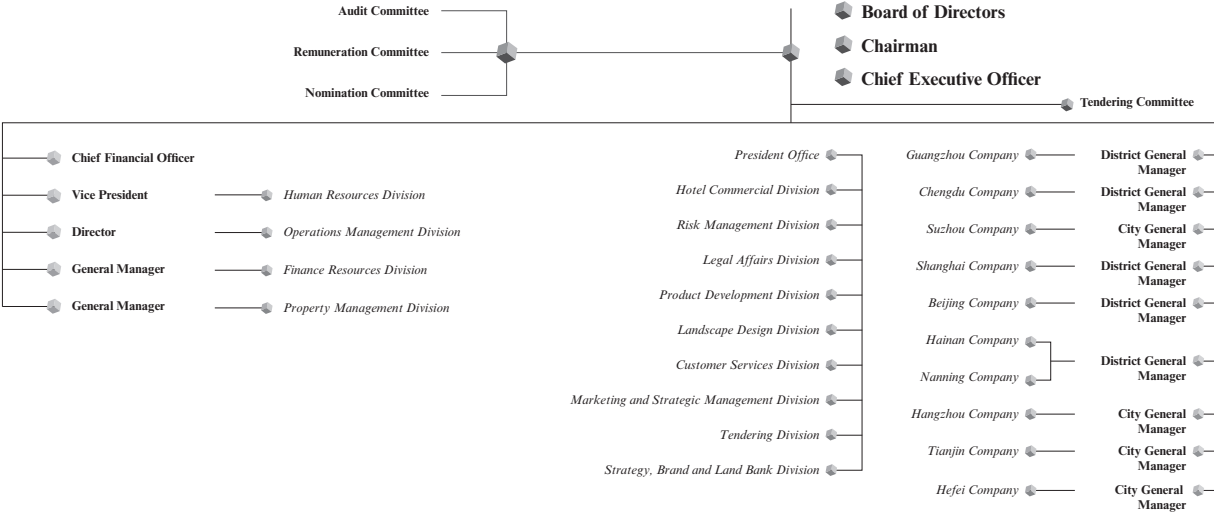


Since 2012, we have been developing certain standardized product criteria and operational guidelines that may be replicated across projects to shorten the time between land acquisition and pre-sales, which we aim to be between eight to ten months. We established our product standardization center in 2013 to ensure the strict implementation of these criteria and guidelines. In addition, we use our IT systems to monitor the entire property development process to ensure strict and efficient execution of our criteria and guidelines.

Project Management

We have established specialized divisions to supervise and manage the major stages of all our property developments. Our chairman, Mr. Kong Jian Min, and our senior management team work closely with the head of each of our divisions to provide management guidance. The divisions at the Group level are the presidents office, human resources division, operations management division, finance resources division, strategy, brand and land bank division, customer services division, landscape division, tendering division, hotel commercial division, risk management division, product development division, marketing and strategic management division, property management division, and legal affairs division. The primary divisions of each of our regional companies include finance division, sales and marketing division, design division, construction division, operations management division, customer service division, and human resources and administration

division. We seek to enhance our operating efficiency, optimize our capacities and resources, enhance our negotiating power with suppliers and contractors and facilitate the sharing of resources and expertise among various projects in such areas as design, construction, marketing and sales through this management system. The chart below sets forth the structure of our management.



Our operations management division plays a key role in managing and coordinating each stage of a development. It participates in all major steps of our project development, and is primarily responsible for timing, budget and cost control. The involvement of our operations management division in the entire process of a project development enables us to achieve management efficiency and establish development strategies that follow market preferences and trends closely. We also set up project companies to jointly manage project development with our joint venture partners.

Joint Venture Operations

We have developed and are developing projects jointly with independent third parties through cooperation agreements. See Note 2.4 to our audited consolidated financial statements included in this offering memorandum for our accounting policies with respect to such joint ventures. We set forth below certain principal terms of our existing cooperation agreements for our jointly developed projects:

- working with strategic partners who are in the preliminary stages of land acquisition or land development by making loans to such partners to further acquire or develop land. We believe that strategic partners in a new market may have local market expertise, or better access to strategic projects in that market;
- working with business partners and financial investors such as well-known real estate companies to jointly acquire or develop land. We believe that forming strategic partnerships with business partners and financial investors is beneficial to our brand building, reputation and provides us with geographical diversification; and
- financing the acquisition and development of land through joint ventures in which we would contribute the right to acquire land, as well as our development expertise and the joint venture partner would contribute funding for the acquisition and development of the land, or vice versa.

Site Selection and Product Positioning

Site selection is fundamental to the success of a property development. Therefore, we devote significant management resources to site selection. Prior to purchasing a parcel of land, our senior management will conduct market research on the potential demand for a property development on such site, determine the overall market positioning, establish a blueprint of the project design, and calculate a target average selling price and gross profit margin for the project. We believe that all these pre-purchase measures help us acquire land prudently and develop our projects with clear market positioning from the beginning.

Historically, our focus was on developments in Guangzhou. We typically select sites in districts or neighborhoods that have a well-established infrastructure or that present significant opportunities for growth. We have also expanded to PRC property markets which we consider to have high-growth potential. The key factors we consider in site selection include:

- government development plans for the relevant site;
- access to the site and availability of infrastructural support;
- purchaser demand for properties in the relevant area;
- existing and potential property developments in the area;
- the convenience of the site, such as proximity to the city center, airport, subway and commercial facilities;
- the surrounding environment, such as natural parks, greenery, lakes and rivers;
- the status of the land use rights with respect to the property that we may have interest to acquire in the secondary market;
- the terms of potential leases, including the potential for rent increases; and
- cost, investment and financial return, including cash flow and capital appreciation, of the potential developments.

We intend to continue to seek suitable opportunities in property development as they arise, we are subject to PRC laws and regulations which, among other things, restrict the land that will be made available in the future for luxury residential property developments. See “Regulations—The Land System of The PRC—Real Estate Loans.”

Land Acquisition

Prior to the implementation by the PRC government on July 1, 2002 of regulations requiring that land use rights for property developments be granted by tender, auction or listing-for-sale, we obtained most of our land use rights through transfer arrangements or cooperative arrangements with local governments or original grantees of land use rights. We also obtained our land use rights by way of tender, auction or listing-for-sale.

The PRC Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (《招標拍賣掛牌出讓國有土地使用權規定》) issued by the Ministry of Land and Resources provide that, from July 1, 2002, state-owned land use rights for the purposes of

commercial use, tourism, entertainment and commodity residential property development in the PRC may be granted by the government only through public tender, auction or listing-for-sale. When land use rights are granted by way of a tender, an evaluation committee consisting of an odd number, being at least five, of members (including a representative of the grantor and other experts), evaluates and selects the tenders that have been submitted. When deciding whom to grant land use rights, the relevant authorities consider not only the tender price, but also the credit history and qualifications of the tenderer and its tender proposal. Where land use rights are granted by way of an auction, a public auction is held by the relevant local land bureau and the land use rights are granted to the highest bidder. When land use rights are granted by way of listing-for-sale, the relevant local land bureau will announce the conditions for granting the land use rights at designated land transaction centers and the bids submitted by the bidders. The land use rights are granted to the bidder submitting the highest bid by the end of the listing-for-sale period. If two or more parties request a competitive bidding, an on-site competitive bidding shall take place and the land use rights are granted to the highest bidder.

Starting November 1, 2007, a regulation issued by the Ministry of Land and Resources requires property developers to pay the land premium in full for the entire parcel under the land grant contract before they can receive a land use rights certificate. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. In March 2010, the Ministry of Land and Resources issued a circular imposing more stringent requirements on the payment of land premium by property developers. The circular stipulates that the minimum down-payment of land premium to 50% should be paid within one month after the signing of a land grant contract and the rest of the land premium should be fully paid within one year after the signing of a land grant contract. The implementation of the regulation will require property developers to maintain a higher level of working capital. Under this regulation, larger property developers generally are in a better position to compete for large pieces of land due to their stronger financial condition.

Under current regulations, original grantees of land use rights are typically allowed to sell, assign or transfer the land use rights granted to them in secondary markets, provided that (i) the assignment price has been fully paid in accordance with the assignment contract and a land use rights certificate has been obtained; and (ii) development has been carried out according to the assignment contract. If the land use rights are obtained by way of allocation, such land may be transferred through public tender, auction or listing-for-sale. In addition to acquiring land through government-organized tender, auction or listing-for-sale, we may also obtain land use rights through transfers from third parties or through cooperative arrangements with third parties in the secondary markets.

In both government bids and purchases in the secondary market, the purchase price typically includes all expenses required to deliver land use rights, such as resettlement expenses.

See “Regulations” in this offering memorandum for further information on rules and regulations relating to land acquisitions.

During 2018, 2019 and 2020, we primarily used three methods of land acquisition: (1) acquiring land use rights through government-organized tender, auction and listing-for-sale; (2) signing land use rights transfer agreements with third parties; and (3) acquiring target projects or lands which third parties have acquired land-use rights themselves.

As of December 31, 2020, we had a land bank of approximately 16.53 million sq.m. of attributable saleable GFA. We expect that our land bank will support our property development in the next several years.

Financing of Property Developments

The main sources of funding for our property developments include: internal funds, borrowings from banks (including PRC banks and overseas banks), capital contributions from shareholders, share issuances and proceeds from sales and pre-sales and other financing sources such as our issuance of the offshore bonds and domestic corporate bonds. Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Project Design Work

Since 2012, we have been developing certain sets of design and interior fit-out standards for our projects to meet the needs of different customers. Our regional design division consists of engineers who supervise our architectural design, landscape design, mechanical engineering, and structural engineering. Our regional design division also monitors the work progress to ensure that the project designs meet our design specifications and are completed on time.

In recent years, we have also collaborated with leading domestic and international design firms to work on critical aspects of property development such as architectural design, landscape and environmental design and interior design. We seek to distinguish our property developments by offering distinctive design features, and adding additional functions to our property developments. For example, our U Fun shopping center in Shanghai is the first green shopping park that is eco-friendly and emphasizes harmony with nature. The development of our U Fun shopping center features a diversified range of attractions, such as international fast fashion, international dining, boutique supermarket and children's amusement areas.

Construction Work

We outsource our project construction work entirely to independent third parties. A tender process is usually required to select contractors for construction projects pursuant to national and local regulations, such as the Measures of the Implementation of the Tender Law of the PRC by Guangdong Province. Certain local governments in Guangdong Province may require that all construction projects go through a tender process. Without any long-term construction outsourcing contracts in place, our operations management division organizes a tender process to work with a number of qualified contractors to create a competitive environment. We consider their track record performance, work quality, proposed delivery schedules and costs in our selection process and seek to maintain our construction costs at a reasonable level without sacrificing quality.

The construction contracts we enter into with construction companies typically contain warranties with respect to quality and timely completion of the construction projects. We require construction companies to comply with PRC laws and regulations relating to the quality of construction as well as our own standards and specifications. Our operations management division monitors quality and cost control and construction progress closely during construction. In the event of a delay in construction or unsatisfactory quality of workmanship, we may require the construction companies to pay a penalty or provide other remedies. Our construction contracts typically provide for payments based on construction progress until a specified maximum percentage of the total contract sum is paid. Except for approximately 5% of the contract sum which we generally withhold for two years from completion to cover any potential expenses incurred as a

result of any construction defects, the remaining balance is payable upon the issue of a certificate approving construction quality. Payments to contractors are determined primarily on the labor and material costs, fitting requirements and construction progress, and are adjustable under the construction contract.

Quality Control and Construction Supervision

We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations and are of high quality. As part of our quality control procedures, we typically engage reputable design and construction companies to undertake our projects.

To ensure quality, we typically purchase certain fixture materials, such as bathroom taps, fittings, electrical appliances and stone fittings directly, while the general contractors procure the basic building materials, such as cement and steel. The general contractors procure most of the equipment necessary for each project in accordance with our specifications. Generally, we do not own any construction equipment and do not maintain any inventory of building materials. However, under certain circumstances, we may instruct the contractor to purchase raw materials from specific suppliers to ensure that the materials meet our particular requirements. When we procure supplies, including equipment and materials, to be used for our projects directly, we generally solicit price quotes from at least two prospective suppliers, negotiate the price and other terms with them and finalize the purchase arrangements with the winning supplier by signing price confirmations for regular supplies and executing purchase agreement for major equipment and construction. We initiate each transaction by a purchase order and require the suppliers to deliver the supplies to locations specified by the relevant project companies. We believe that our centralized procurement system gives us more bargaining power and better cost control, enabling us to benefit from economies of scale.

To maintain quality control, we employ strict procedures for selection, inspection and testing of equipment and materials. Our project management teams inspect equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject materials which are below our standards or do not comply with our specifications and return them to the suppliers.

To ensure quality and monitor the progress and workmanship of construction, each of our projects has its own on-site project management team, which comprises qualified engineers led by our project manager. Our project management teams provide on-site supervision of the project. The contractors are also subject to our quality control procedures, including appointment of internal on-site quality control engineers, examination of materials and supplies and on-site inspection. In addition, we have a quality control team which consists of qualified engineers and inspects the quality of the construction work on a selective basis. We also engage independent quality supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site.

Our quality inspection team under the operations management division is responsible for the supervision of the construction of our properties and ensuring that our properties meet specified standards upon completion. In addition, prior to handing over a property to a purchaser, our sales and customer service personnel, together with our engineers and the relevant property management company inspect the property to ensure the quality of the completed property.

Pre-sale

We typically conduct pre-sales of our property units prior to the completion of a project or a project phase, subject to satisfaction of certain requirements set forth in laws and regulations governing pre-sales of properties. Under the Law of the Administration of Urban Property of the PRC (《中華人民共和國城市房地產管理法》) and the Administrative Measures Governing the Pre-sale of Urban Property (《城市商品房預售管理辦法》), as amended in 2001 and 2004, we must meet the following conditions prior to commencing any pre-sale of a particular property development:

- the land premium has been fully paid and the relevant land use rights certificates have been obtained;
- the required construction works planning permits and the construction project building permit have been obtained;
- the funds contributed to the property developments where property units are pre-sold may not be less than 25% of the total amount invested in a project and the progress and the expected completion date and delivery date of the construction work have been confirmed; and
- pre-sale permits have been obtained from the construction bureaus at local levels.

According to the Administration of Pre-sale of Commodity Premises Regulations of Guangdong Province (《廣東省商品房預售管理條例》) and a notice issued by the Guangdong Provincial Construction Bureau on January 2, 2001, we must meet the following conditions, in addition to the four conditions mentioned above, before obtaining a pre-sale permit for our projects in Guangdong Province:

- a business license and a real property development qualification certificate have been obtained;
- the construction quality and safety monitoring procedures have been performed;
- the main structural construction has been completed with respect to properties of not more than seven stories, and at least two-thirds of the main structural construction has been completed with respect to properties of more than seven stories;
- a special property pre-sale account has been set up at a commercial bank in the place where the project is located; and
- the land use rights with respect to the properties in the project and the project are free from third-party claims.

Other cities and regions in which we have property developments or to which we are expanding (such as Jiangsu Province, Sichuan Province, Beijing, Tianjin, Shanghai, Nanning, Nanjing, Hangzhou and Hainan Province) have imposed similar conditions to pre-sales of properties, which require the possession of certain certificates or government approvals, completion of certain structure or facilities, proof of required investment and the setup of a special pre-sale proceeds accounts.

Sales and Marketing

Our corporate strategy and brand marketing division is responsible for marketing of our brand name at the Group level. Our regional sales and marketing division is responsible for managing sales and marketing for specific projects. We conduct training sessions for our staff from time to time and also conduct specific training on a particular project prior to the commencement of pre-sales of such project. We offer our sales and marketing staff performance-based remuneration packages and opportunities to visit renowned projects in other cities in the PRC and overseas to broaden their horizons and enrich their professional experience. Our sales managers and our marketing managers cooperate to conduct feasibility studies based on market analysis, design sales and pricing strategies, and determine appropriate advertising and sales plans for a particular property development and for a particular phase of the sales cycle. They also work with other divisions of the company to plan and organize efficient and orderly on-site sales processes, arrange promotional activities and collect purchaser data and comments. In mid-2015, we proactively strengthened our operation and sales management by rebuilding an in-house sales team for our own property developments dividing our markets into regions to facilitate a closer management of our projects. Since our sales personnel are in direct communication with customers, we believe that such personnel are able to accurately inform customers about our brand philosophy, products types and quality and pass on customers' comments to other relevant divisions within our group in a timely manner.

We adopt various measures to reach potential purchasers, including advertising through television, radio, newspapers, internet, billboards, magazines and instant text messages. We also organize seminars and performances on our projects to attract purchasers.

Payment Arrangements

Purchasers of our residential properties, including those purchasing pre-sale properties, may arrange for mortgage loans with banks. We typically require our purchasers to pay a non-refundable deposit (typically ranging from RMB5,000 to RMB500,000) before entering into formal purchase contracts. If the purchasers later decide not to enter into a purchase contract, they will forfeit such deposits. Upon executing the purchase contracts, the purchasers are typically required to pay not less than 30% of the total purchase price of the property. If purchasers choose to make a lump-sum payment, the remaining purchase price balance is typically required to be paid no later than six months after the execution of the purchase contracts. If the purchasers choose to fund their purchases by mortgage loans provided by banks, under current PRC laws and regulations, they may obtain mortgage loans of up to a maximum of 70% for units larger than 90 sq.m., of the purchase price with a repayment period of up to 30 years. These purchasers are typically required to pay the remaining balance of that portion of the purchase price that is not covered by the mortgage loans prior to the disbursement of the mortgage loans from mortgagee banks. The payment terms of sales and pre-sales of properties are substantially identical.

In accordance with industry practice, we provide guarantees to banks with respect to the mortgage loans offered to our purchasers. These guarantees are released upon the earlier of (i) the relevant property certificates being delivered to the purchasers, and (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers of our projects. In line with industry practice, we do not conduct independent credit checks on our purchasers but rely on the credit checks conducted by the mortgagee banks. As of December 31, 2018, 2019 and 2020, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB8,117.1 million, RMB16,765.5 million and RMB20,271.7 million (US\$3,106.8 million), respectively. See “Risk Factors—Risks Relating to Our Business—We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments.”

Property Management

Historically, we engaged our own or third-party property management companies on behalf of our purchasers to manage the residential properties we developed. We established professional property management teams to provide after-sale property management services to our purchasers of high-end and mid-end projects respectively. Most of our projects are managed by Guangzhou Ningjun Property Management Co., Ltd. (廣州市寧駿物業管理有限公司) and Guangzhou Fuxin Property Management Co., Ltd. (廣州市富馨物業管理有限公司), which are now subsidiaries of KWG Living. Some of our projects are managed by other third-party management companies. Historically, we also engaged Savills Guangzhou and Jones Lang LaSalle as property consultants to provide professional advice on property management. The project management companies typically provide after-sales services to purchasers of our properties, including security services, maintenance, operation of clubhouses, gardening and landscaping and other services. Under PRC laws and regulations, the owners' association of a residential community has the right to change property management companies pursuant to certain procedures. See "Risk Factors—Risks Relating to Our Business—Property owners may terminate our engagement as the provider of property management services."

On June 24, 2020, we announced on the Hong Kong Stock Exchange that we propose to spin-off and separately list the shares of our subsidiary, KWG Living, on the main board of the Hong Kong Stock Exchange. KWG Living and its subsidiaries principally engage in the provision of residential property management services and commercial property management and operational services. On October 30, 2020, listing of KWG Living on the main board of Hong Kong Stock Exchange took place and it has ceased to be our subsidiary. See "Risk Factors—Risks Relating to Our Business—We may be subject to risks in relation to our property management services."

Investment Properties

We develop investment properties, including office buildings, retail shop units, shopping malls, hotels and serviced apartments for leasing and/or for capital appreciation. As of December 31, 2020, these investment properties (which include investment properties under development) had a total GFA attributable to the Group of approximately 2,408,227 sq.m. Our investment properties mainly comprise office buildings, such as International Finance Place, International Metropolitan Plaza in Guangzhou, Guangdong and KWG centre in Beijing. As of December 31, 2020, tenants who have signed up or agreed to sign up include about 10 domestic and foreign banks, the Guangzhou offices of various multi-national corporations and diplomatic institutions such as the Italian Consulate. Some of our retail shop units are, or are expected to be, located in large, multiple-use complexes. We may choose to sell the retail shop units we have developed when we believe that sales would generate a better return on investment than through rental or holding for capital appreciation. In 2016, we also completed our U Fun shopping center and had a grand opening in 2017 in Shanghai. U Fun in Shanghai is our first shopping center. With this project, we are committed to creating the first green shopping park in Shanghai that emphasizes harmony with nature. The development features a diversified range of attractions such as international fast fashion, international dining, boutique supermarkets and children's amusement center. With the launch of Tian Hui Plaza in Guangzhou in October 2016, the launch of U Fun in Suzhou, Chengdu and Guangzhou Zengcheng, together with M•Cube in Beijing within 2018, and the launch of U Fun in Foshan and Guangzhou Nansha within 2019 and the launch of M•Cube in Chengdu in 2020, we believe there will be steady growth in our rental income.

We will continue to explore opportunities in diversified property investments with the objective to maintain a balanced product portfolio. We intend to continue to roll out high quality investment properties and premium hotels in the future. We expect our revenue derived from our portfolio of office buildings, shopping malls, hotels and long-term rental apartments held on a long-term basis to account for approximately 10% of our total revenue.

Hotel Management

In September 2009, we opened our first hotel property, Four Points by Sheraton Guangzhou, Dongpu, located in Dongpu, Tianhe District, Guangzhou. In November 2011, the Sheraton Guangzhou Huadu Resort in Guangzhou commenced operations⁽¹⁾. We developed the first W Hotel in China, the W Hotel in Guangzhou, which officially commenced operations in May 2013. We have entered into operating agreements with the Starwood Hotels Group. Under these agreements, the Starwood Hotels Group will operate the relevant hotels and associated serviced apartments. Each operating agreement has a ten- or 15-year term commencing on the date of the opening of the respective hotel and ending on December 31 of its tenth or fifteenth full operating year. The Starwood Hotels Group have an option to extend the term for an additional five years upon a written notice of no more than one year and no less than 180 days prior to the expiration of the original term. In addition, we have entered into three operating agreements with Hyatt. Under these agreements, Hyatt will operate the relevant hotels. Each operating agreement has a 20-year term commencing on the date of the opening of the respective hotel and ending on December 31 of its twentieth full operating year. The term can be extended twice for an additional five years per extension if agreed by both parties. We have also entered into one operating agreement with Marriott. This agreement has a 20-year term commencing on the date of the opening of the respective hotel and will be automatically renewed for a period of five years unless either we or Marriott notifies the other party not to renew at least one year before the end of the original term.

We believe that by having the Starwood Hotels Group, Hyatt and Marriott operate our hotels and associated serviced apartments, we will be able to benefit from their global reputation, hotel operation experience as well as integrated marketing services, global reservation systems and employee training programs. Each of the Starwood Hotels Group, Hyatt and Marriott will receive a fee in consideration of their operation services. This fee is calculated based on a percentage of the revenue from the operations of each of our hotels and serviced apartments operated by Starwood Hotels Group, Hyatt and Marriott, respectively, for a certain period during the term of the relevant operating agreement. As the owner of these properties, we will participate in reviewing and approving the proposed operating plans or major contracts, as applicable, subject to certain limitations stated in the relevant hotel operating agreements and participate in making material operating and financial management decisions of the relevant hotels.

The table below sets forth certain information relating to our hotels which had been completed, as of December 31, 2020:

	<u>Number of rooms</u>	<u>Ownership interest</u>	<u>Management partner</u>	<u>Date of full opening</u>	<u>Terms under the operating management agreement</u>
1. Guangzhou Dongpu Four Points by Sheraton	300	100%	Marriot Hotels Group	2009	10 + 5 years
2. Guangzhou Huadu The Mulian ⁽¹⁾	167	100%	Self-owned and operated ⁽¹⁾	2011	Self-owned and operated
3. Guangzhou W Hotel	317	100%	Marriot Hotels Group	2013	15 + 5 years
4. Guangzhou ZJNT The Mulian	160	100%	Self-owned and operated	2014	Self-owned and operated
5. Hangzhou Future Science City The Mulian	192	100%	Self-owned and operated	2015	Self-owned and operated
6. Guangzhou Conrad Hotel	306	33.33%	Hilton	2017	25 + 10 years
7. Chengdu Global Center The Mulian	244	100%	Self-owned and operated	2017	Self-owned and operated
8. Suzhou Courtyard	306	100%	Marriott Hotels Group	2018	10 + 5 years
9. Suzhou CRH North Station The Mulian	198	100%	Self-owned and operated	2018	Self-owned and operated
10. Guangzhou Canton Fair The Mulian	322	—	Asset light and franchise	2019	Asset light and franchise
11. Guangzhou Nansha Phoenix Lake The Mulian	206	50%	Self-owned and operated	2019	Self-owned and operated
12. Guangzhou Luogang Science City The Mulian	193	—	Asset light and lease in	2019	Asset light and lease in
13. Shenzhen Bantian The Mulian	217	—	Asset light and lease in	2019	Asset light and lease in
14. Hangzhou Xixi Lingyin Temple The Mulian	218	—	Asset light and lease in	2019	Asset light and lease in
15. Chengdu Dayi The Mulian	30	55%	Self-owned and operated	2019	Self-owned and operated
16. Xi'an High-tech Zone Wanxianghui The Mulian	228	—	Asset light and lease in	2019	Asset light and lease in
17. Wuhan International Expo Center The Mulian	101	—	Asset light and lease in	2019	Asset light and lease in
18. Guangzhou Gaoxing Guoyu The Mulian	60	—	Asset light and franchise	2020	Asset light and franchise
19. Chengdu W Hotel	297	100%	Marriot Hotels Group	2020	15 + 5 years

Note:

(1) We have rescinded the operating agreement of Sheraton Guangzhou Huadu Resort with Marriott. Starting from July 1, 2017, the name of Sheraton Guangzhou Huada Resort has been changed to the Mulian and was owned and operated by us.

In addition, we are planning to develop more other high-end hotels and boutique “the Mulian” hotels in tier-one and top tier-two cities. We have entered into various agreements with Marriott Hotels Group and Hilton to manage international branding hotels, and as of December 31, 2020, we operated nine new Mulian Hotels with an asset-light model, including Mulian Hotels at Canton Fair, Nansha Phoenix Lake, Luogang Science City and Gaoxin Guoyu in Guangzhou, Bantian in Shenzhen, Xixi Lingyin Temple in Hangzhou, International Expo Centre in Wuhan, Wanxianghui in Xi'an and Dayi in Chengdu.

Properties Used by Us

Our corporate headquarters are located at International Finance Place, Guangzhou, Guangdong Province. As of December 31, 2020, we leased an aggregate GFA of approximately 82,264 sq.m. in the PRC and 1,245 sq.m. in Hong Kong. We lease such properties primarily as offices of the regional offices, local branches of our subsidiaries and staff housing. We believe that in the event there is any future dispute due to lessor's defective title to the leased property and/or in connection with the validity of the tenancy agreements, we will be able to find alternative premises within a short time frame and with minimal adverse impact on, or disruption to, our business operations.

Competition

Our existing and potential competitors include major domestic developers and, to a lesser extent, foreign developers primarily from Asia, including several leading developers from Hong Kong. Some of our competitors target different segments of the PRC property market; some engage in other activities in addition to property development; and some focus regionally or nationally. Our competitors may have more experience and resources than us. For more information on competition, see “Risk Factors—Risks Relating to the Real Estate Industry in China—Increasing competition in the property industry in China, particularly in Guangzhou and other cities where we operate may adversely affect our business and financial condition.”

Intellectual Property Rights

We have registered with the PRC Trademark Office our trademarks of “KWG,” “合景,” “合景泰富,” “KWG Property,” “合景泰富地產” and “IFP” under various categories, and have applied to register with the PRC Trademark Office our trademarks of “悠方,” “譽峰,” “木蓮莊,” “彩立方,” “合景匯,” “摩方” and “領峰.” We have registered “合景泰富,” “KWG Property” and “KWG合景泰富” trademarks in Hong Kong.

Employees

As of December 31, 2020, we had approximately 6,000 full-time employees.

Insurance

Property developers in Guangzhou are not required under national or local laws or regulations to maintain insurance coverage in respect of their property development operations. We do not maintain insurance coverage on our properties developed for sale other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. Neither do we require the construction companies we engage to maintain insurance coverage on properties under construction. In addition, we generally do not carry insurance against personal injuries that may occur during the construction of our properties. The construction companies, however, are responsible for quality and safety control during the course of the construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations. To help ensure construction quality and safety, we have a set of standards and specifications for the construction workers to comply with during the construction process. We engage qualified supervision companies to oversee the construction process. Under PRC laws, the owner or manager of properties under construction bears civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. Since we have taken the above steps to prevent construction accidents and personal injuries, we believe that we would generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us. In addition, according to our construction contracts, any liability that may arise from tortious acts committed on work sites will be borne by the construction companies. To date, we have not experienced any destruction of or damage to our property developments nor have any personal injury-related claims been brought against us.

We believe that our policies with respect to insurance are in line with the industry practice in the PRC. However, there are risks that we do not have sufficient insurance coverage for losses, damages and liabilities that may arise in our business operations. See “Risk Factors—Risks Relating to Our Business—We may suffer certain losses not covered by insurance.”

Environmental and Safety Matters

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local governments. See “Regulations—The Land System of The PRC—Environmental Protection.” As required by PRC laws and regulations, each project developed by a property developer is required to undergo an environmental assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. During the course of construction, the property developer and the construction companies must take measures to prevent air pollution, noise emissions and water and waste discharge.

Upon completion of a property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers. As of December 31, 2020, we were in the process of applying for the environmental completion inspection approval for certain of our projects.

In addition, PRC environmental laws and regulations provide that if a construction project includes environmental facilities (including engineering projects, devices, monitors and other facilities that were constructed or equipped in order to prevent pollution and protect the environment), such facilities will have to pass an inspection by the environmental authorities and an approval must be obtained before the environmental facilities can commence operations. If a construction project does not include any environmental facilities, no such approval is required. Our business is of such a nature that we are not required to construct environmental facilities and, therefore no approval in respect of environmental facilities from the environmental authorities is necessary.

We believe that our operations are in compliance with currently applicable national and local environmental and safety laws and regulations in all material respects. See “Risk Factors—Risks Relating to the Real Estate Industry in China—Potential liability for environmental damages could result in substantial cost increases.”

Legal Proceedings

From time to time we are involved in legal proceedings or disputes in the ordinary course of business including claims relating to our guarantees for mortgage loans provided to our purchasers and contract disputes with our purchasers and suppliers.

As of the date of this offering memorandum, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. However, we cannot assure you that material legal proceedings, claims or disputes will not arise in the future. See “Risk Factors—Risks Relating to Our Business—We may be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities or damage to our reputation as a result.”

REGULATIONS

The Land System of The PRC

All land in the PRC is either state-owned or collectively owned, depending on location. All land in the urban areas in a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The PRC State (“the State”) has the right to resume land in accordance with law if required for the benefit of the public.

Although all land in the PRC is owned by the State or by collectives, private individuals, enterprises and other organizations are permitted to hold, lease and develop land for which they are granted land use rights.

National Legislation

In April 1988, the Constitution of the PRC (the “Constitution”) was amended by the National People’s Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law (《中華人民共和國土地管理法》) of the PRC was amended to permit the transfer of land use rights for value.

Under the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-Owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) (“Urban Land Regulations”) promulgated in May 1990 and amended on November 2020, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a grant premium.

Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land. They are generally as follows:

	<u>Years</u>
Commercial, tourism or entertainment	40
Residential.	70
Industrial.	50
Public utilities	50
Others	50

Under the Urban Land Regulations, all PRC and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its land use rights to a third party for the remainder of the term of grant.

Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings thereon will revert to the State without compensation.

In order to stop illegal occupation and abusive use of land, prevent overheating in investment in fixed assets in some areas and implement strict protection of cultivated land, the General Office of the State Council issued the Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (《關於深入開展土地市場治理整頓嚴格土地管理的緊急通知》) on April 29, 2004. The notice addresses the following issues: (i) continuing the rectification of the land market; (ii) strictly administering approvals of construction land; (iii) protecting basic agricultural land; (iv) strictly implementing the general strategy and annual plan for land use and the balance system for occupying and compensating agricultural land; and (v) actively promoting the reform of the administration system of land and resources. Also, according to the notice, the rectification of the land market will take approximately half a year from the issuance of the notice. Approvals for converting agricultural land to non-agricultural construction land will be suspended throughout China during this period, except for certain major public infrastructure projects which shall be approved by the State Council.

On March 26, 2005, the General Office of the State Council promulgated a Notice on Effectively Stabilizing Residential Property Prices (《關於切實穩定住房價格的通知》) to restrain the excessive growth of residential property prices and promote the sound development of the property market. The notice provided that residential property prices should be stabilized and the system governing residential property supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council, including the then PRC Ministry of Construction, issued an Opinion on the Work of Stabilizing Residential Property Prices (《關於做好穩定住房價格工作的意見》) on April 30, 2005. The opinion stated, amongst other things, that: (i) local governments should focus on increasing the supply of low- to medium-end ordinary residential properties while controlling the construction of high-end residential properties; (ii) to curb any speculation in the property market, business taxes would be levied from June 1, 2005 on the total revenue arising from any transfer by individuals of properties within two years from purchase or on the difference between the transfer price and the original price for any transfer of non-ordinary properties (非普通住宅) by individuals after two or more years from purchase; and (iii) the real estate registration department will no longer register the transfer of apartment units which are pre-sold where such units have not obtained the relevant real estate ownership certificates.

On May 24, 2006, the General Office of the State Council further issued a Notice on Adjusting the Residential Property Supply Structure and Stabilizing Residential Property Prices (《關於調整住房供應結構穩定住房價格意見的通知》). The notice provided for six broad measures, including directives to (i) encourage mass-market residential developments and to curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (business taxes will be levied on the entire sale price of any property sold within five years from purchase, or on the profit arising from any property sold after five years from purchase subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70% of the total property price (for properties purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for a mortgage up to an amount representing 80% of the total property price); (iv) halt land supply for villas projects and restrict land supply for high-end, low density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) local governments are also required to ensure that at least 70% of the total development and construction area also must consist of units of less than 90 sq. m. in size (with any exceptions requiring the approval of the then PRC Ministry of

Construction); and (vii) banks are not permitted to provide loans to a property developer whose total capital fund is less than 35% of the total investment amount in an intended development project.

On August 30, 2006, the State Council published the Notice by the State Council on Strengthening the Regulation and Control of the Land (《關於加強土地調控有關問題的通知》), which regulates the management of land in the PRC and also the protection of agricultural land. According to the notice, land designated for industrial purposes shall be granted by way of tender, auction and putting up for bidding, but in any event shall not be sold below the reserve price.

In May 2006, the Ministry of Land and Resources published an Urgent Notice to Tighten Up Land Administration (《當前進一步從嚴土地管理的緊急通知》). In this notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the Ministry of Land and Resources also required the local governments to conduct thorough investigations of illegal land use and submit a report on such investigations to the ministry by the end of October 2006.

In September 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (《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》), pursuant to which at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low- to medium-cost and small-to medium-size units, low-cost rental properties and affordable housing.

On January 3, 2008, the State Council issued the Notice on Promoting Economization of Land Use (《關於促進節約集約用地的通知》). This notice states, among other things, that (i) policies in relation to the forfeiture of land use rights without compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of LAT on idle land; (v) in relation to the supply of residential land, planning conditions such as plot ratio limits and the number and type of units that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grant for residential development will consist of low rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vi) financial institutions are required to exercise caution when approving financing for any property developer who, after one year from the commencement date stipulated in the land grant contract, fails to complete at least one-third of the development of their project or provide at least 25% of the total investment in the project.

In order to encourage the consumption of the ordinary residence and support the real estate developer to handle the market change, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (《關於促進房地產市場健康發展的若干意見》) in December 2008. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from

the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to “low-to-medium-level price” or “small-to-medium-sized” ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (《關於促進房地產市場平穩健康發展的通知》), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down-payment of 40% of the purchase price.

On March 8, 2010, the Ministry of Land and Resources promulgated the Circular 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》, Circular) in order to strictly regulate the transfer of land for commercial buildings. According to this circular, the area of a parcel of land granted for commodity residential project should be strictly restricted in accordance with the Catalogue of Restricted Use of Land (2006 Version Supplement) (《限制用地項目目錄》(2006年本增補本)) and the minimum price of the land transfer shall not be less than 70% of the benchmark price of the place where the land being transferred is located, and the bidding deposit shall not be less than 20% of the minimum transfer price. After land transfer deal is closed, land transfer contract shall be executed within ten working days therefrom. The first installment of 50% of the land transfer price shall be paid within one month of the execution of the contract and the remaining payment shall be made in time in accordance with the contract, which shall not be later than one year. A system of declaration on commencement and finish of real estate project should be established since April 1, 2010. Property developer should make written declaration to the land resource authorities when the project commenced or finished.

On April 17, 2010, for the purpose of the State Council Issued Notice on Resolutely Containing the Excessive Hike of Property Price in Some Cities (《堅決遏制部分城市房價過快上漲的通知》) (the “April 17 Notice”), which provides that where the first home purchaser (including a borrower, his or her spouse and children under 18) buy a residence with a unit floor area of more than 90 sq.m. for self use, the minimum down payment shall not be less than 30%; where for the second home buyers that use mortgage financing, it is required that the minimum down payment shall be 50% of the purchase price with minimum mortgage lending interest rate at the rate of 110% of the benchmark rate; where a third or further buyers that use mortgage financing, the minimum down payment and interest rate thereof shall be further substantially raised. The April 17 Notice, further requires that in cities where property price is overly high with excessive price hike and strained house supply, commercial banks may in light of risk exposure suspend extending bank loans for a third or further buyers; also provision of housing loans shall be suspended to non-local residents who cannot present the local tax returns or social insurances certification of more than one year.

Three authorities, including MOHURD, PBOC and CBRC, jointly released the Circular on Standardizing the Assessing Criteria of the Second Home for Personal Mortgage Loans (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》) on May 26, 2010. Under the circular, the number of residential properties owned by a family for the purpose of commercial mortgage applications for individuals shall be calculated according to number of residential properties actually owned by members (including spouse and under-age children) of the applicant's family. The circular also stipulated that property purchasers shall check the property registration records of the family via the property registration system, and shall provide the results in writing. The loan applicant shall provide the credit guarantee in writing to prove the actual number of properties owned by his/her family.

On September 29, 2010, PBOC and CBRC jointly issued the Circular on Issues Concerning Improving Differentiated Housing Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), which stipulates that all commercial banks shall suspend issuing housing loans to home buyers whose family members already own two or more housing properties and to non-local residents who cannot provide evidence showing that they have paid taxes or social insurance contribution for more than one year. If a real estate developer has records of having idle land, changing the land use purpose and nature, delaying the project commencement or completion time, hoarding land and other infractions, all commercial banks shall stop issuing loans or providing loan extension services to such real estate developer for its new projects.

On November 2, 2010, the Ministry of Finance, MOHURD, CBRC and PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (《關於規範住房公積金個人住房貸款政策有關問題的通知》), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. Only the housing provident fund-paying families whose floor area per capita is less than local average shall have access to personal housing provident fund loan which is used to buy the second house, and the loan shall be used to buy ordinary self-use house so as to improve dwelling conditions. Where the personal housing provident fund loan is used to buy the second house, the down-payment proportion shall not be lower than 50%, and the interest rate of such loan shall not be less than 1.1 times of the interest rate of the personal housing provident fund loan for the purchase of the first house. Personal housing provident fund loan for the purchase of a third or more houses by housing provident fund-paying families shall be suspended.

On November 4, 2010, SAFE and MOHURD jointly issued the Circular on Further Regulating the Administration of Housing Purchases by Overseas Institutions and Individuals (《關於進一步規範境外機構和個人購房管理的通知》), which indicates that unless otherwise provided for in laws and regulations, an overseas individual may purchase only one self-use house within the territory of China; any overseas institution which sets up a branch or representative office within the territory of China may purchase a non-residence house required for business purposes only in the city where such branch or representative office is registered.

On January 26, 2011, the General Office of the State Council issued the Notice concerning Further Strengthening the Macroeconomic Control of the Real Property Market (《進一步做好房地產市場調控工作有關問題的通知》). This notice, among others, provides that: (i) people selling residential property within five years of their purchase of such residential property will be charged business taxes on the full amount of the sale price of such houses, whether ordinary or non-ordinary; (ii) the minimum down payment for second house purchases is raised from 50% to 60%; (iii) the PRC government will forfeit the land use rights if a developer fails to obtain the construction permit

and commence development for more than two years from the commencement date stipulated in the land grant contract; and (iv) municipalities directly under the PRC central government, municipalities with independent planning status, provincial capitals and cities with high housing prices shall limit the number of houses that local residents can buy in a specified period. In principle, local resident families that own one house and non-local resident families who can provide local tax clearance certificates or local social insurance payment certificates for a required period are permitted to purchase only one additional house (including newly-built houses and second-hand houses). Sales of properties to (a) local resident families who own two or more houses, (b) non-local resident families who own one or more houses, and (c) non-local resident families who cannot provide local tax clearance certificates or local social insurance payment certificates for a required period, shall be suspended in local administrative regions.

In order to implement the Notice Concerning Further Strengthening the Macroeconomic Control of Real Property Market on February 23, 2011 the Guangzhou Municipal Government promulgated the Notice on Further Strengthening Control over the Guangzhou Property Market (《廣州市人民政府辦公廳關於貫徹國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知的實施意見》), which provided, among other things, that (i) the minimum down payment for second house purchases using bank loans or housing reserves is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (ii) both local families who have one house only and non-local families who do not own a house in Guangzhou and have paid social insurance or individual income tax for an accumulative 12 months over the last two years in Guangzhou, are allowed to buy one more house; and (iii) (a) local families who already have two or more houses, (b) non-local families who have one house, and (c) non-local families who fail to provide evidence of payment of social insurance or individual income tax for an accumulative 12 months over the last two years in Guangzhou, are suspended from purchasing a new house in Guangzhou. On February 16, 2011, the Beijing Municipal Government promulgated the Notice on Further Strengthening Control over Beijing Property Market (《北京市人民政府辦公廳關於貫徹落實國務院辦公廳文件精神進一步加強本市房地產市場調控工作的通知》), which among other things, provides that (i) a local family that owns one house in Beijing (including a family that holds an effective Beijing Certificate for Work and Residence) and (ii) a non-local family with an effective Certificate for Temporary Residence that does not own a house in Beijing and has paid social insurance or individual income tax for five consecutive years, are permitted to purchase one additional house in Beijing (including newly-built and second-hand houses). Furthermore, (i) a local family that owns two or more houses in Beijing, and (ii) a non-local family that owns one house or more in Beijing, or fails to provide both an effective Certificate for Temporary Residence and evidence of payment of social insurance or individual income tax for consecutive five years, is suspended from purchasing a new house in Beijing. In addition to Beijing, other cities, including Tianjin, Shanghai, Suzhou, Nanjing, Qingdao, Chengdu, Foshan and Harbin, have also announced their new purchase limit policies which are almost the same as the requirements in the Notice Concerning Further Strengthening the Macroeconomic Control of Real Property Market.

On February 26, 2013, the General Office of the State Council announced the Notice on Continuing to Improve the Regulation and Control of the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which among others, provides the following requirements: (i) limitations on the purchase of commodity properties must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity properties and second-hand properties located within the entire administrative area of the city in question; (ii) for those cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties in accordance with the price control policies and targets of the corresponding local governments; (iii) the gains generated from the sale of a self-owned property shall be subject to individual income tax at a rate of 20%, if the original value

of such property can be verified through historical information such as tax filings and property registration. On November 15, 2013, the general office of the People's Government of Guangzhou issued the Opinions concerning Further Strengthening of the Macroeconomic Control of the Real Property Market (《廣州市人民政府辦公廳關於進一步做好房地產市場調控工作的意見》), which requires (1) the speeding up of low-cost commodity housing supply and controlling of high-end commodity housing supply. The low-density commodity housing projects under construction will be approved for sale only after the completion of the initial registration of the real estate; (2) non-local resident families who can provide local tax clearance certificates or local social insurance payment certificates for three consecutive years are permitted to purchase only one house (including newly-built houses and second-hand houses); and (3) the Guangzhou Branch of PBOC should further increase minimum down payment for loans to purchase second properties in accordance with the price control targets of Guangzhou.

On May 22, 2014, the Ministry of Land and Resources published the Regulation on Economization of Land Use (節約集約利用土地規定), which shall take effect on September 1, 2014. This regulations states, among other things, that (i) the State will control the total scale of construction land via overall plans for land use; (ii) the Ministry of Land and Resources, together with other relevant authorities, will issue land use controlling standards for engineering construction projects, industrial construction projects and real estate development projects (including land scale and plot ratio), which shall be strictly observed; (iii) the scope of allocated lands will be further limited. Except for land used for military purposes, indemnificatory housing, and land used for special purposes concerning national security and public order which may be allocated without compensation, all the land used for business purposes, land used for offices by the government organizations, infrastructure industry, such as energy, communications and water conservancy, and urban infrastructure shall be granted with compensation; and (iv) the owner of land use rights and the price for a plot of granted land shall be determined by way of tender, auction or putting up for bidding. The price for a plot of land granted with compensation shall not be less than the minimum price set by the State. It is prohibited to exempt or reduce the payment for a plot of land granted with compensation in such disguised forms as exchanging land for projects, refunding after collection or granting subsidies or rewards.

On September 30, 2014, PBOC and CBRC jointly issued the Notice on Further Improving Financial Services for Real Estate Sector (《關於進一步做好住房金融服務工作的通知》), which provides where a family that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the bank may apply the mortgage loan policies for first-time home buyers. In cities where restrictions on the purchase of residential property have not been implemented or have been lifted, for a home buyer who owns two residential properties or more and has paid off all the existing mortgage loans, the bank shall assess the credit profile of the borrower, taking into consideration the solvency, credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate accordingly. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

In March 2015, PBOC, CBRC and MOHURD jointly issued the Notice on Relevant Issues Concerning the Individual Housing Loan Policies (《關於個人住房貸款政策有關問題的通知》), which provides where a family that owns a residential property and has not paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve living conditions, the minimum down payment shall be 40% of the property price, with the specific terms of such loan to be decided by the financial institution that provides the loan based on the risk profile of the borrower.

In February 2016, PBOC and CBRC jointly issued the Circular on Issues Concerning Adjusting the Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), which provides that in cities where restrictions on the purchase of residential property have not been implemented, the minimum down payment ratio for a first-time home buyer is, in principle, 25% of the property price, which can be adjusted downward by 5% by the local authorities. For existing residential property household owners who have not fully repaid the previous loan and are obtaining further personal housing commercial loan to purchase an additional ordinary residential property for the purpose of improving living conditions, the minimum down payment ratio shall be not less than 30% which is lower than the previous requirement of not less than 40%. In cities that have implemented restrictions on the purchase of residential property, the personal housing commercial loan policies shall remain unchanged.

From September 30, 2016 to date, Beijing, Tianjin, Suzhou, Chengdu and other cities have issued new property market control policies, including restoring the restriction on purchases of residential properties and tightening credit policy. To promote the stable and healthy development of the real estate market in Beijing, among other measures, a new policy was adopted. This new policy requires the government to set a ceiling price for land granting and when bidders all bid at the ceiling price, the bidder with the lowest proposed property selling price would win the land. On October 12, 2016, the MOHURD required investigation and punishment of persons or entities that spread rumors, deliberately hype or disrupt the market to protect the rights and interests of housing buyers.

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

On July 12, 2019, the NDRC published on its website A Notice on Requirements for Foreign Debt Registration Application by Real Estate Enterprises (關於對房地產企業發行外債申請備案登記有關要求的通知), which imposes more restrictions on real estate enterprises incurring medium to long term foreign debt. The use of proceeds of foreign debt incurred by a real estate developer is limited to refinancing medium to long term offshore debts of the real estate developer which will become due within one year. The real estate developer is required to specify in documents for application of foreign debt registration with NDRC the details of such medium to long term offshore debts, such as the amount, the maturity date, and whether such medium to long term offshore debts have been registered with NDRC. The real estate developer is also required to submit a commitment letter regarding the authenticity of its foreign debt issuance.

Grant

PRC law distinguishes the ownership of land and the right to use land. Land use rights can be granted by the State to a person to entitle him to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece of land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the Urban Land Regulations, there are three methods by which land use rights may be granted, namely by agreement, tender or auction.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulation on Grant of State-Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》). According to the regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau, together with other relevant government departments including the city planning authority, will formulate the plan concerning issues including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. The local land bureau and the person who is interested will negotiate and enter into the grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or putting up for bidding. Furthermore, according to the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Putting up for Bidding (《招標拍賣掛牌出讓國有土地使用權規定》) (the “Land Use Grant Rules”) which are effective from July 1, 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction or putting up for bidding.

Where land use rights are granted by way of tender, invitations to tender will be issued by the local land bureau. The invitation will set out the terms and conditions upon which the land use rights are proposed to be granted. A committee will be established by the relevant local land bureau to consider tenders which have been submitted. The successful bidder will then be asked to sign the grant contract with the local land bureau and pay the relevant land premium within a prescribed period. The land bureau will consider the following factors: the successful bidder shall be either the bidder who can satisfy the comprehensive evaluation criteria of the tender, or who can satisfy the substantial requirements of the tender and also offers the highest bid.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the bidder with the highest bid. The successful bidder will be asked to enter into a grant contract with the local land bureau.

Where land use rights are granted by way of bidding, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bidding and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid and which satisfies the terms and conditions. The successful bidder will then enter into a grant contract with the local land bureau.

Upon signing of the contract for the grant of land use rights, the grantee is required to pay the land premium pursuant to the terms of the contract and the contract is then submitted to the relevant local land bureau for the issue of the land use rights certificate. Upon expiration of the term of grant, the grantee may apply for renewal of the term. Upon approval by the relevant local land bureau, a new contract shall be entered into to renew the grant, and a grant premium shall be paid.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-Owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設土地使用權規定》) to require that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use rights certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

In November 2009, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (《關於進一步加強土地出讓收支管理的通知》). The notice raises the minimum down-payment for land premium to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

Ministry of State Land and Resources promulgated the Notice on Problems Regarding Strengthening Control and Monitor of Real Estate Land Supply (《關於加強房地產用地供應和監管有關問題的通知》) on March 8, 2010. According to the notice, the land provision for affordable housing, urban redevelopment and small/medium residential units for occupier owner should be no less than 70% of total land supply, and the land supply for large residential units will be strictly controlled and land supply for villa projects will be banned. The notice also requires that the lowest land grant price should not less than 70% of the basic land price in which the granted land is located and the real estate developers' bid deposit should not less than 20% of the lowest grant price. The land grant agreement must be executed within ten working days after the land transaction is confirmed. The minimum down payment of the land premium should be 50% and must be paid within one month after the execution of the land grant agreement. The rest payment should be paid in accordance with the agreement, but not later than one year. If the land grant agreement is not executed in accordance with the requirement above, the land should not be handed over and the deposit will not be returned. If no grant premium is paid after the execution of the agreement, the land must be withdrawn.

On September 21, 2010, the Ministry of Land and Resources and MOHURD issued the Circular on Further Strengthening the Administration and Control of Real Estate Land-Use and Development (《國土資源部、住房和城鄉建設部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. It specifies that when the bidders take part in the bidding or auction of the transferred land, the competent land department and resources shall, in addition to requiring proof of identity documents, payment of the bid security, require an undertaking letter stating that the bid security is not from any bank loan, shareholders' borrowing, on-lending or raised funds, and the credit certificate issued by commercial financial institutions. Where the bidders are found to have conducted any of the following illegal or irregular activities, the competent department of land and resources shall forbid the bidders and their controlling shareholders from participating in land bidding activities: (1) committing crimes such as forgery of instruments with an aim to illegally sell the land; (2) conducting illegal activities such as illegal transfers of land use rights; (3) where the land is idle for a period of more than one year due to the

enterprises' reasons; or (4) where the development and construction enterprise develops and takes advantage of the land in contravention of the conditions as agreed in the transfer contract. The relevant departments of land and resources at all levels are required to strictly implement the regulations. In addition, the circular provides that the grant of two or more bundled parcels of land or uncleared land (毛地) is prohibited.

According to the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Edition) and the Catalog for Prohibited Land Use Projects (2012 Edition) (關於印發《限制用地項目目錄》(2012年本)和《禁止用地項目目錄》(2012年本)) promulgated by the Ministry of Land and Resources in May 2012, the granted land area of each residential housing project should not exceed (i) seven hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, and (iii) 20 hectares for large cities, and the plot ratio must be more than 1.0 (inclusive).

In order to control and facilitate the procedure of obtaining land use rights, several local governments have stipulated standard provisions for land grant contracts. Such provisions usually include terms such as use of land, land premium and manner of payment, building restrictions including site coverage, total gross floor area and height limitations, construction of public facilities, submission of building plans and approvals, deadlines for completion of construction, town planning requirements, restrictions against alienation before payment of premium and completion of prescribed development and liabilities for breach of contract. Any change requested by the land user in the specified use of land after the execution of a land grant contract will be subject to approvals from the relevant local land bureau and the relevant urban planning department, and a new land use contract may have to be signed and the land premium may have to be adjusted to reflect the added value of the new use. Registration procedures must then be carried out immediately.

Withdrawal of Land

According to the Law of Administration of Urban Real Property (《中華人民共和國城市房地產管理法》) (the “Urban Real Property Law”), promulgated by the Standing Committee of the NPC on July 5, 1994, effective on January 1, 1995 and as amended in August 2007, in August 2009, and further amended in August 2019, which is effective on January 1, 2020, where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of development set out in the land grant contract. Where the development does not commence within one year from the specified date set out in the land grant contract, an idle land fee may be charged at a rate equivalent to not more than 20% of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

In January 2008, a Notice on Promoting Economization of Land Use (《關於促進節約集約用地的通知》) issued by the State Council urges the full and effective use of existing construction land and the preservation of farm land and emphasizes the enforcement of the current rules on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20% of the land grant premium, as well as for land left idle for more than two years, with such idle land forfeited without compensation.

On June 1, 2012, the Ministry of Land and Resources revised and promulgated the “Measure for the Disposal of Idle Land,” (閒置土地處置辦法) which clarified the scope and definition of idle land, as well as the corresponding punishment measures. Pursuant to the Measures for the Disposal of Idle Land, under the following circumstances, a parcel of land shall be defined as “idle land”:

- any State-owned land for construction use, of which the holder of the land use rights fails to start the construction and development thereof within one year after the commencement date of the construction and development work as agreed upon and prescribed in the contract for fee-based use of State-owned land for construction use, or the decision on allocation of State-owned land for construction use; and
- any State-owned land for construction uses of which the construction and development have been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development or the amount invested is less than 25% of the total investment, and the construction and development of which has been suspended for more than one year.

If a parcel of land is deemed as idle land by competent department of land and resources, unless otherwise prescribed by the new Measures for the Disposal of Idle Land, the land shall be disposed of in the following ways:

- where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a Decision on Collecting Charges for Idle Land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land assignment or allocation fee; and the said charges for idle land shall not be included in the production cost by the holder of the land use rights; and
- where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a Decision on Recovering the Right to Use the State-owned Land for Construction Use to the holder of the land use rights and recover the right to use the State-owned construction land without compensation.

On September 12, 2014, the Ministry of Land and Resources issued the Guidelines on Improving Economical and Intensive Use of Land (《關於推進土地節約集約利用的指導意見》), which requires relevant governmental authorities to reinforce the implementation of the rules regarding idle land and to specify the control requirements of land use standards in relevant legal documents, including land use approvals and land grant contracts.

Transfer

After land use rights relating to a parcel of land have been granted, unless any restriction is imposed, the party to whom such land use rights are granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the grant contract, with respect to the prescribed period and conditions of investment,

development and use of the land, have not been complied with. In addition, different areas in the PRC have different conditions which must be fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract between the parties which must be registered with the relevant local land bureau at the municipality or county level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted are deemed to be incorporated as part of the terms and conditions of such transfer, depending on the nature of the transaction.

Under the Urban Real Property Law, real property that has not been registered and with respect to which a title certificate has not been obtained in accordance with the law may not be assigned. Also, under the Urban Real Property Law, if land use rights are acquired by means of grant, the real property shall not be assigned before the following conditions have been met: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use rights certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) more than 25% of the total amount of investment or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purposes have been satisfied.

Termination

Land use rights terminate upon the expiration of the term of the grant specified in the land grant contract and the resumption of that right. Upon expiry, the land use rights and ownership of the related buildings erected thereon and other attachments may be acquired by the State without compensation. The land user will take steps to surrender the land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations. A land user may apply for renewal of the land use rights and, if the application is granted, the land user is required to enter into a new land grant contract, pay a premium and effect appropriate registration for the renewed right.

According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) property purposes expires, it will be renewed automatically.

The State generally will not withdraw the land use rights before the expiration of its term of grant and for special reasons (such as in the public interests), it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the land use rights have been enjoyed by the user.

Real Estate Registration

On November 24, 2014, the State Council promulgated the Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), effective from March 1, 2015 and amended on March 24, 2019, which provides, among others, that:

- The competent department of land and resources under the State Council shall be responsible for guiding and supervising the real estate registration of the State. The local government at or above the county level shall designate a department as the real estate registration authority within its administrative region which shall be subject to the guidance and supervision by the competent real estate registration authority at the higher level;

- The real estate authority shall establish a uniform real estate registration book to record the items including, without limitation, the natural and ownership conditions of the real estate, and the restrictions of rights;
- The competent department of land and resources under the State Council shall, in coordination with other related departments, establish a uniform basic management platform for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform basic platform to ensure the real-time sharing of registration information at the national, provincial, municipal and county level; and
- Any right holder or interested party may apply to inquire about or copy the real estate registration materials and the registration authority shall not refuse to provide such information. Units and individuals inquiring about the real estate registration information shall not use such registration information for any other purpose and no such information may be disclosed to the public or others without the consent of the right holder.

The “Implementing Rules of the Interim Regulations on Real Estate Registration” (《不動產登記暫行條例實施細則》), effective from January 1, 2016 and amended on July 24, 2019, authorizes the real estate registration authority to perform a site inspection following an acceptance of the application for real estate registration and sets out regulations regarding real estate registration information management.

Mortgage and Guarantee

Under the Civil Code of the People’s Republic of China (中華人民共和國民法典) (“PRC Civil Code”) promulgated by the SCNPC on May 28, 2020 and implemented on January 1, 2021, when a mortgage is created on a building legally obtained, a mortgage shall be simultaneously created on the land use rights of the land on which the building is situated. When the land use rights of state-owned land acquired through means of grant are being mortgaged, the buildings on the land shall also be mortgaged at the same time. The land use rights of town and village enterprises cannot be mortgaged. When buildings owned by town and village enterprises are mortgaged, the land use rights occupied by the buildings shall also be mortgaged at the same time. The mortgager and the mortgagee shall sign a mortgage contract in writing.

Leasing

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon. However, leasing of land use rights obtained by allocation (劃撥) and of buildings on such allocated land is regulated by the Urban Land Regulations.

On December 1, 2010, MOHURD issued the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》), according to which the parties to a housing tenancy shall go through the housing tenancy registration formalities with the competent construction (real estate) administration authorities of the municipalities directly under the PRC central government, cities or counties where the housing is located within 30 days after the housing tenancy contract is signed. The relevant construction (real estate) administration authorities are authorized to impose a fine below RMB1,000 on individuals, and a fine between RMB1,000 and RMB10,000 on other violators who are not natural persons who fail to comply with the regulations within the specified time limit. The above measures came into effect as of February 1, 2011.

According to the Urban Real Property Law, where the owner of a house built on state-owned land leases his/her property and that the land use rights were obtained through allocation for the purpose of profit making, any proceeds derived from the land in the form of rent must be paid to the State.

On June 3, 2016, the General Office of the State Council issued the “Opinions on Accelerating the Cultivation and Development of Leasing Market” (國務院辦公廳關於加快培育和發展住房租賃市場的若干意見), promulgated by the State Council in January 2011, and as amended in March 2018 and in March 2019, which encourages real estate developers to carry out house leasing businesses. The said opinions support real estate developers to utilize built residential properties or newly built residential properties to carry out leasing businesses. The opinions also encourage real estate developers to put up the residential properties for rent and to cooperate with residential property leasing enterprises to develop rental properties.

On July 18, 2017, MOHURD, NDRC and other government departments jointly released the “Circular on Accelerating the Development of the Housing Leasing Market in Large and Medium-sized Cities with a Large Inflow Population” (關於在人口淨流入的大中城市加快發展住房租賃市場的通知, hereinafter referred to as the “Circular”). According to the Circular, the government will take multiple measures to speed up the development of the rental market and increase supply of rental housing, including but not limited to, encouraging the local governments to increase land supply for the development of property for rental and increasing the proportion of rental housing to the commercial residential building projects.

Resettlement

On January 21, 2011, the State Council promulgated the Regulation on Expropriation and Compensation Related to Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》) (the “Expropriation and Compensation Regulation”), which replaced the Administration Rules of Demolition and Removal of Housing in Urban Areas. The Expropriation and Compensation Regulation provides that, among other things:

- (i) buildings can be expropriated under certain circumstances for public interests, and only governmental authorities can be in charge of resettlement activities; real estate developers are prohibited from being involved in demolition and relocation procedures;
- (ii) compensation shall be paid before the resettlement;
- (iii) compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of expropriation. The market value of properties shall be determined by qualified real estate appraisal institutions in accordance with appraisal rules related to property expropriation. Any owner who does not agree with the appraised market value of the property can apply to the real estate appraisal institution for re-appraisal; and
- (iv) neither violence nor coercion may be used to force homeowners to leave sites, nor can certain measures, such as illegally cutting water and power supplies, be used in relocation work.

Property Development

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. A large tract development project consists of comprehensive development of an area to be suitable for industrial, leveling of the land and construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area, or construct buildings on the land itself and sell or lease the buildings thereon.

Once the developer identifies a piece of land for development and obtains the land use rights certificate, it has to apply for a construction land use planning certificate (建築用地規劃許可證) from the relevant planning commission. Once this certificate is obtained, the developer will have to submit a detailed plan for the design of buildings and construction in order to obtain construction works planning permit (建設工程規劃許可證) and work commencement permit (建設工程施工許可證).

A property project developed by a property developer shall comply with the relevant laws and other statutes, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant contract. After completion of works for a project, the property developer shall organize an acceptance examination according to the Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》) promulgated and implemented by State Council on January 30, 2000 and as amended on October 7, 2017 and further amended on April 23, 2019, and the Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by the then PRC Ministry of Housing and Urban-Rural Development in December 2013, and shall also report details of the acceptance examination according to the Administrative Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the then PRC Ministry of Construction in April 2000 and as amended in October 2009. A property development project may only be delivered after passing the necessary acceptance examination, and may not be delivered before the necessary acceptance examination is conducted or without passing such an acceptance examination. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, an acceptance examination may be carried out for each completed phase.

Qualifications of a Property Developer

Under the Provisions on Administration of Qualifications of Property Developers (《房地產開發企業資質管理規定》) (the “Provisions on Administration of Qualifications”) promulgated by the then PRC Ministry of Construction in March 2000, and as amended in May 2015, a property developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in development and sale of property without a qualification classification certificate for property development. The construction authority under the State Council oversees the qualifications of property developers throughout the country, and the property development authority under a local government on or above the county level shall oversee the qualifications of local property developers.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Different classes of qualification should be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

Under the Regulations on Administration of Development of Urban Real Estate (《城市房地產開發經營管理條例》), promulgated by the State Council in January 2011, and as amended in March 2018, in March 2019, and further amended in March 2020 and November 2021[●], the property development authorities shall examine applications for registration of qualifications of a property developer when it reports its establishment, by considering its assets, professional personnel and business results. A property developer shall only undertake property development projects in compliance with the approved qualification registration.

After a newly established property developer reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The Provisional Qualification Certificate shall be effective one year from its issuance, while the property development authority may extend the validity to a period of no longer than two years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

A developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a gross floor area of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the government of the relevant province, autonomous region or municipality. Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (《中華人民共和國環境保護法》), the Prevention and Control of Noise Pollution Law (《中華人民共和國環境噪聲污染防治法》), the Environmental Impact Assessment Law (《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 study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant

authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Pre-sale and Sale

Pursuant to the Urban Real Property Law and the Administrative Measures Governing the Pre-sale of Urban Real Estate (《城市商品房預售管理辦法》) (the “Administrative Measures”) amended on July 20, 2004, commodity houses which have not been completed may be sold when certain conditions and/or requirements are satisfied.

Pre-sale of commodity houses is regulated by an approval system. Developers who intend to pre-sell their commodity houses shall apply to the relevant real estate administration authority at the city or county level and obtain a pre-sale permit.

When commodity houses are pre-sold, the following requirements shall be satisfied according to the Urban Real Property Law and the Administrative Measures:

- (i) the land premium in respect of the land use rights must be paid in full and the land use rights certificate must have been obtained;
- (ii) the construction works planning permit and the work commencement permit must have been obtained;
- (iii) funds contributed to the development of the project shall amount to at least 25% of the total amount of the project investment, and project progress and the date of completion of the project for use must have been ascertained; and
- (iv) the pre-sale permit must have been obtained through pre-sale registration.

On April 13, 2010, MOHURD issued the Circular on Further Strengthening Real Estate Market Supervision and Improvement of the Commercial Housing Pre-sale System (《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》). It stipulates that:

- the property developer shall not charge the earnest or advance from the purchaser in forms of subscription, order or grant of VIP card in relation to the project that has not obtained the pre-sale permits;
- property developer shall disclose all the housing that are permitted to be sold in one time and the price of each housing within ten days after obtaining the pre-sale permits;
- pre-sale permits can only be issued to entire buildings, in addition, pre-sale permit shall not be issued to individual floors or units;
- property developer shall produce commercial housing pre-sale program and sell the commercial housing in accordance with such program. The program shall include basic information of the project, such as construction schedule, number of pre-sale housing, predicted size, the areas of public space and public facilities, sale prices and the range of changes in sale prices and the monitoring system on pre-sale proceeds. The pre-sale program and all material changes to such program shall be reported to the relevant authorities for record and be published;

- all the pre-sale proceeds shall be deposited into accounts under monitory to ensure the legitimate use for project construction; and
- the property developer shall take the primary responsibility for the quality of properties it has developed, while the enterprises of survey, design, construction and supervision shall also take the respectively responsibility accordingly.

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

On September 21, 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Relevant Opinions on Providing the Pre-sale Permit for Commodity Houses” (《關於請提供商品房預售許可有關意見的緊急通知》), asking for opinions on the cancellation of the pre-sale system of commodity residential properties.

Commodity buildings may be put to post-completion sale after they have passed the clearance examination and otherwise satisfy the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit the Real Estate Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the real estate development authority for its record.

Transfer of Real Estate

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

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

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

- in case of where the real property has been completed in construction, the property ownership certificate shall be obtained.

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

If the land use rights were originally obtained by allocation, such allocation may be changed to land use rights grant if approved by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant statutes. Land for industry (including warehouse land, but excluding mining land), commercial use, tourism, entertainment and commodity housing development must be assigned by competitive bidding, public auction or listing-for-sale under the current PRC laws and regulations.

Real Estate Loans

On June 5, 2003, PBOC promulgated the Notice on Further Strengthening the Administration of Real Estate Loans (《關於進一步加強房地產信貸業務管理的通知》). According to the notice, the commercial banks shall focus their business towards supporting real estate projects targeted at mid to lower-income households and appropriately restrict the granting of real estate loans to projects involving spacious apartments, luxurious apartments and villas. The notice strictly prohibits banks from advancing working capital loans to real estate developers. When applying for a real estate loan, the real estate developer's own capital in any proposed real estate project should not be less than 30% of the total investment of the project. The notice also prohibits loans advanced for the payment of land premium for land use rights.

On August 12, 2003, the State Council published the Notice on Facilitating Sustained and Healthy Development of Real Estate Market (《國務院關於促進房地產市場持續健康發展的通知》), which provides a series of measures to control the property market, including but not limited to increasing the supply of common residential houses, controlling the construction of high-end commodity houses, and strengthening the supervision of the real property administration. The purpose of the notice is to create a positive influence on the long-term development of the property market in China.

On August 30, 2004, CBRC issued a Guideline for Commercial Banks of Risks of Real Estate Loans (《商業銀行房地產貸款風險管理指引》). According to the guideline, no loan shall be granted to projects which have not obtained the land use rights certificate, construction land planning permit, construction works planning permit and work commencement permit. The guideline also stipulated that not less than 35% of the total investment in a property development project must come from the real estate developer's own capital for the project (項目資本金) in order for banks to extend loans to the real estate developer. In addition, the guideline requires commercial banks to set up strict approval systems for loan grants.

Under the Notice of the People's Bank of China on Adjusting the Housing Credit Policies of Commercial Banks and Deposit Interest Rate of the Excess Part of the Reserve (《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》) issued by PBOC on March 16, 2005 and effective from March 17, 2005, the minimum amount of down payment for an individual residence shall be increased from 20% to 30% of the purchase price for properties in cities where the property market is considered to be overheating.

In May 2006, the General Office of the State Council issued an opinion developed by the then PRC Ministry of Construction (and certain other PRC central government agencies) on Adjustment of Housing Supply Structure and Stabilization of Property Prices (《關於調整住房供應結構穩定住房價格的意見》). According to the opinion, in order to curtail the rapid rise in property prices, from June 1, 2006, the minimum amount of down payment for individual housing shall not be less than 30%. However, considering the housing needs of low-and middle-income earners, the minimum down payment for self-occupied housing with a GFA of less than 90 square meters per unit remains unchanged, and shall not be less than 20%.

In September 2007, PBOC and CBRC promulgated a Circular on Strengthening the Management of Commercial Real-estate Credit Loans (《關於加強商業性房地產信貸管理的通知》), with a supplement issued in December 2007. The circular aims to tighten the control over real-estate loans from commercial banks to prevent granting excessive credit. The measures, among others, include: prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties. In addition, commercial banks are also banned from providing loans to the projects that have less than 35% of capital funds (proprietary interests), or fail to obtain land use rights certificates, construction land planning permits, construction works planning permits or construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

On December 5, 2007, PBOC and CBRC jointly issued the Supplemental Circular on Strengthening the Management of Commercial Real Estate Credit Loans (《關於加強商業性房地產信貸管理的補充通知》), which clarifies that the times of property mortgage loans should be calculated on a family basis, including the borrower and his spouse and minor child.

In July 2008, PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (《關於金融促進節約集約用地的通知》), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans (《關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》), which provides that, effective October 27, 2008, the float-down range for interest rate for individual mortgage loans is expanded and the ratio of down payments is be adjusted. As a result, the minimum interest rate for individual mortgage loans is 70% of the benchmark loan interest rate and the minimum down payment ratio is adjusted to 20%.

In December 2008, the General Office of the State Council issued the Opinion on Promoting the Healthy Development of Real Estate Market (《國務院辦公廳關於促進房地產市場健康發展的若干意見》). The opinion provides that in order to expand domestic demand and encourage purchase of

ordinary residential housing, residents who purchase ordinary self-occupied housing for the first-time by borrowing a mortgage loan shall enjoy preferential policies in relation to loan interest rates and down payment. For residents who have already borrowed a mortgage loan and purchased self-occupied housing for the first time, if the GFA per person of that first housing is lower than the local average, such residents may still enjoy the preferential policies in relation to loan interest rates and down payment when they purchase a second self-occupied house. For any other application on mortgage loans for purchasing a second or subsequent housing unit, the interest rate shall be determined by the commercial banks based on the benchmark interest rate and their banks' risk assessments.

According to an Opinion on Adjusting the Portion of Capital for Fixed-Asset Investment (《國務院關於調整固定資產投資項目資本金比例的通知》) issued by the State Council in May 2009, the capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the capital ratio for other property is adjusted from 35% to 30%, which was further decreased to 25% in September 2015. Financial institutions shall decide based on the capital ratio adjustments whether or not to issue loans to real estate companies.

The General Office of the State Council issued the Circular on Accelerating the Stable and Smooth Development of Real Estate Market (《關於促進房地產市場平穩健康發展的通知》) on January 7, 2010. The Circular reinforces the enforcement of differentiated credit policy. In addition to continuing to support the first-time purchase of common housing with loans, the government strengthens the administration for the second housing bought with loans. It provides that the down payment for the second housing bought with loans shall not be less than 40% of the total price. The interest rate will be adjusted based on risk pricings.

On April 17, 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of the House Price in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》) which stipulated that down payment for the first property that is larger than 90 sq. m. shall not be less than 30% of the purchase price; down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not less than 1.1 times the benchmark lending rate published by PBOC. In addition, the down payment and interest rate shall significantly increase for the third or further properties bought with mortgage loans. In certain areas where commodity residential property is in short supply and prices rise too quickly, the banks may suspend granting mortgage loans for the third or further properties bought with mortgage loans or to non-local residents who cannot provide any proof of tax or social insurance payment more than one year.

Three authorities, including MOHURD, PBOC and CBRC, jointly released the Circular on Standardizing the Assessing Criteria of the Second Home for Personal Mortgage Loans (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》) on May 26, 2010. Under the Circular, the number of residential properties owned by a family for the purpose of commercial mortgage applications for individuals shall be calculated according to number of residential properties actually owned by members (including spouse and under-age children) of the applicant's family. The circular also stipulated that property purchasers shall check the property registration records of the family via the property registration system, and shall provide the results in writing. The loan applicant shall provide the credit guarantee in writing to prove the actual number of properties owned by his/her family.

On September 29, 2010, PBOC and CBRC jointly issued the Circular on Issues Concerning Improving Differentiated Housing Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), which stipulates that all commercial banks shall suspend issuing housing loans to home buyers

whose family members already own two or more housing properties and to non-local residents who cannot provide evidence showing that they have paid taxes or social insurance contribution for more than one year.

On November 2, 2010, the Ministry of Finance, MOHURD, CBRC and PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (《關於規範住房公積金個人住房貸款政策有關問題的通知》), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. On January 26, 2011, the State Council issued the Notice Concerning Further Strengthening the Macroeconomic Control of Real Property Market (《關於進一步做好房地產市場調控工作有關問題的通知》), according to which, the minimum down payment is raised to 60% for second-house purchases with the minimum lending interest rate at 110% of the benchmark rate. See “—National Legislation.”

On February 13, 2017, the AMAC issued the Rule 4. Rule 4 provides that the AMAC shall temporarily suspend accepting any private equity and asset management plan which makes a direct or indirect investment in any ordinary residential property project located in specified cities where the property prices are considered to have risen too fast, including Beijing, Shanghai and Guangzhou. Rule 4 also prevents private equities and asset management plans from funding real estate development enterprises to pay land premium or supply working capital through ways including, but not limited to entrusted loans, trust plans or transfers of beneficial interests in assets.

On 25 August, 2019, PBOC issued the Announcement of the People’s Bank of China No.16 [2019] under which, starting from October 8, 2019, new commercial individual housing loans should be priced by adding basis points to the latest monthly loan prime rate (LPR) of corresponding maturity. The basis points added should conform to the national and local housing credit policy requirements, reflect the loan risk profile, and remain fixed during the contract period. The interest rate of first-time commercial individual housing loans should not be lower than the LPR of corresponding maturity, and the interest rate of second-time commercial individual housing loans not be lower than the LPR of corresponding maturity plus 60 basis points.

On December 28, 2020, PBOC and CBRC jointly promulgated the Notice of the People’s Bank of China and China Banking and Insurance Regulatory Commission on the Establishment of a Concentration Management System for Real Estate Loans by Banking Financial Institutions (《中國人民銀行中國銀行保險監督管理委員會關於建立銀行業金融機構房地產貸款集中度管理制度的通知》), effective on January 1, 2021, which requires a PRC financial institution (excluding its overseas branches) to limit the amount of real estate loans and personal housing mortgage loans it lends to a proportion calculated based on the total amount of RMB loans extended by such financial institution. A relevant financial institution will have a transition period of two years or four years to comply with the requirements depending on whether such financial institution exceeded 2% of the legal proportion based on the statistical data relating to such financial institution as of December 31, 2020. Under the notice, PBOC and CBRC will have the authority to take measures such as, among other things, imposing additional capital requirements on and reallocating the weight adjustments relating to the risk of real estate assets for financial institutions that fail to rectify the proportion requirements within a certain period.

Property Management

Under the Catalog of Guidance on Industries for Foreign Investment (2017 version) (外商投資產業指導目錄) (2017年修訂) (the “Guidance Catalog”), which was jointly promulgated by the MOFCOM and the NDRC on June 28, 2017 and became effective on July 28, 2017, the construction of golf course and villas falls within the category of industries in which foreign investment is prohibited, the construction and operation of large theme parks fall within the restricted category, and other real estate development falls within the category of industries in which foreign investment is permitted. On June 23, 2020, MOFCOM and NDRC jointly issued the “Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version)” (外商投資准入特別管理措施(負面清單) (2020年版) (“Special Administrative Measures”) effective from July 23, 2020, according to which foreign investment is permitted in the property management industry.

According to the Regulation on Real Estate Management (《物業管理條例》) enacted by the State Council on June 8, 2003 and enforced on September 1, 2003, as amended on August 26, 2007 and February 6, 2016 and March 19, 2018. The State Council has abolished the qualification scheme system in monitoring the real estate management enterprises, and instead implemented the system of management based on the credibility and integrity of the real estate management enterprises.

According to the Regulation on Real Estate Management (《物業管理條例》), the general meeting of owners in a property can appoint or dismiss the property management service provider with affirmative votes of more than half of the owners who in the aggregate hold more than 50% of the total uncommunal area of the property. Before the formal appointment of a property service enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property service enterprise.

Hotel Development

Under the Guidance Catalog, the construction of golf course and villas falls within the category of industries in which foreign investment is prohibited, the construction and operation of large theme parks fall within the restricted category, and other real estate development falls within the category of industries in which foreign investment is permitted. According to Special Administrative Measures, foreign investment is permitted in hotel development industry.

Hotel developments in China are also subject to regulations governing property development generally, including those relating to land use, project planning and construction. Currently, no dedicated regulator has been designated for the hotel industry in the PRC. The governmental regulation of operation of hotel business is undertaken by different authorities in accordance with the respective business scopes of different hotels.

Supervision on Security and Fire Control

Pursuant to the Measures for the Control of Security in the Hotel Industry (《旅館業治安管理辦法》) issued by the Ministry of Public Security of the PRC, enforced on November 10, 1987 and revised on January 8, 2011 and amended on November 29, 2020, a hotel can start operation only after obtaining an approval from the local public security bureau and being issued a business license. The hotel operators should make a filing with the local public security bureau and its branches in the county or city, if the hotel operators has any material change such as closing, transferring business or merging into other business, changing place of business and name.

Pursuant to the Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions (《機關、團體、企業、事業單位消防安全管理規定》) enacted by the Ministry of Public Security on November 14, 2001 and enforced on May 1, 2002, hotels (or motels) are subject to special regulation in terms of fire control and safety. When a hotel is under construction, renovation or re-construction, a fire control examination procedure is required and when the construction, renovation or re-construction project is completed, a hotel can only open for business after passing a fire control inspection.

Supervision on Public Health

According to relevant regulations and rules in relation to public health, hotels are subject to public health regulation. The operating enterprise should gain the sanitation license. The measures for granting and managing sanitation license are formulated by public health authority of province, autonomous region, and municipality directly under the central government. The sanitation license is signed by the relevant public health administration and the public health and epidemic prevention institutions grant the license. The sanitation license should be reviewed once every two years.

Supervision on Catering

According to the relevant regulations and rules in relation to catering services, hotels operating catering services should obtain catering service permits. Catering service permits are granted by food and drug administrative bodies above county level. The purchase, reserve and processing of food, tableware, and service should meet relevant requirements and standards for catering services.

Insurance

There is no mandatory provision under PRC laws and regulations requiring a property developer to obtain insurance policies for its property developments. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as third-party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all the aforementioned risks ceases immediately after the completion and acceptance upon inspection of construction.

Foreign Investment in Property Development

The Urban Land Regulations state that foreign entities may acquire land use rights in China unless the law otherwise provides. However, in order to develop the land acquired, foreign investment enterprises in the form of equity or co-operative joint ventures or wholly foreign-owned enterprises must be established.

Under the "Measures for the Administration of the Approval and Record Filing of Foreign Investment Projects" (《外商投資項目核准和備案管理辦法》) promulgated by the NDRC on May 17, 2014, enforced on June 17, 2014 and revised on December 27, 2014, the NDRC is responsible for the approval of encouraged projects with a total investment (including capital increase) of US\$1,000 million or above, which are projects required to be controlled by a Chinese shareholder under the Guidance Catalog, and restricted projects (excluding real estate projects) with a total investment (including capital increase) of US\$100 million or above. Projects with a total investment (including capital increase) of US\$2,000 million or above shall be filed with the State Council. Provincial governments are responsible for the approval of real estate projects within the restricted category

under the Guidance Catalog and other restricted projects with a total investment (including capital increase) of not more than US\$100 million. Local governments are responsible for the approval of encouraged projects with a total investment (including capital increase) of not more than US\$1,000 million, which is required to be controlled (including relatively controlled) by a Chinese shareholder under the Guidance Catalog.

Establishment of a foreign investment enterprise engaged in property development, commonly referred to as a “development company,” is subject to approval by the relevant departments of China’s government in accordance with relevant laws and regulations. To establish a foreign investment enterprise, the joint venture partners must submit a project application report to the central or local development and reform authority for project approval or project filing. At the same time, the parties typically proceed to negotiate and execute the joint venture contract and articles of association for the establishment of development company. The project application report, the joint venture contract and/or articles of association shall then be submitted to the central or local foreign economic and trade authorities in their respective capacities for approval. Having obtained the approval certificate, the foreign investor and/or the domestic party can apply to the relevant industry and commerce authority for a foreign investment enterprise business license for the development company. In addition, all property development companies, including foreign investment enterprises, are also required to apply for a property development enterprise qualification certificate (房地產開發企業資質證書) from the central or local construction authority.

On July 11, 2006, the then PRC Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly promulgated the Opinions on Foreign Investment in Real Estate (《關於規範房地產市場外資准入和管理的意見》) (“Opinion 171”), which states that: (i) an overseas entity or individual investing in real estate in China other than for self-use, shall apply for the establishment of a FIREEs in accordance with applicable PRC laws and shall only conduct operations within the authorized business scope after obtaining the relevant approvals from and registering with the relevant governmental authorities; (ii) the registered capital of a FIREEs with a total investment of US\$10 million or more shall not be less than 50% of its total investment amount, whereas for FIREEs with a total investment of less than US\$10 million, the current rules on registered capital shall apply; (iii) a newly established FIREEs can only obtain an approval certificate and business license which are valid for one year. The approval certificate and business license can be obtained by submitting the land use rights certificate to the relevant government departments after the land grant premium for the land has been paid; (iv) an equity transfer of a FIREEs or the transfer of its projects, as well as the acquisition of a domestic real estate enterprise by foreign investors, must first be approved by the commerce authorities. The investor shall submit a letter to the commerce authorities confirming that it will abide with the land grant contract, the construction land planning permit and the construction works planning permit. In addition, the investor shall also submit the land use rights certificate, the registration of change of investor and evidence from the tax authorities confirming that tax relating to the transfer has been fully paid; (v) foreign investors acquiring a domestic real estate enterprise through an equity transfer, acquiring the Chinese investors’ equity interest in an equity joint venture or through any other methods shall pay the purchase price in a lump sum and with its own capital and shall ensure that the enterprise’s employees and bank loans are treated and dealt with in accordance with applicable PRC laws; (vi) if the registered capital of a FIREEs is not fully paid up, its land use rights certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREEs is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans; (vii) the investors in a FIREEs shall not in any manner stipulate a fixed return clause or equivalent clause in their joint venture contract or in any other documents; (viii) a branch or representative office established by a foreign investor in China (other than a FIREEs), or a foreign individual working or studying in the PRC for more than one year, is

permitted to purchase commodity residential properties located in the PRC only for the purpose of self-residence. Residents of Hong Kong, Macau and Taiwan and overseas Chinese may purchase commodity residential properties of a stipulated floor area based on their living requirements in the PRC for self-residence purposes.

In August 2006, the General Office of MOFCOM issued a notice on the implementation of the Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (《關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知》). The notice requires that, the registered capital of a FIREEs shall not be less than 50% of its total investment if its total investment exceeds US\$3.0 million, and the registered capital of a FIREEs shall not be less than 70% of its total investment if its total investment is US\$3.0 million or less.

In May 2007, MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) (“Circular 50”), which was amended in October 2015. Under Circular 50, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership, or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments. In addition, the local PRC governmental authorities must file with MOFCOM for record their approvals of establishment of FIREEs, and must exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by FIREEs that have been established in contravention of these requirements.

In July 2007, SAFE issued a Notice on the Distribution of the List of the First Group of Foreign Invested Real Estate Projects Filed with MOFCOM (《關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》) (“Notice 130”), together with a list of FIREEs that had effected their filings with MOFCOM. According to Notice 130, SAFE will no longer process foreign debt registrations or applications by FIREEs for permission to purchase foreign exchange to service their foreign debt if such FIREEs have not obtained their approval certificates from the government before June 1, 2007. As a result of Notice 130, unless the approval certificate of an FIREEs as of May 31, 2007 contained an aggregate investment amount, which includes its registered capital and foreign debt amount, sufficient to permit foreign currency to be injected into its operations in China, such FIREEs effectively will no longer be able to borrow foreign debt including shareholder loans and overseas commercial loans to finance their operations in China. It can only use its capital contributions instead. SAFE further provided in its Notice 130 that it will not process any foreign exchange registration (or change of such registration) or application for settlement of foreign currency under capital account by any FIREEs if it has obtained the relevant approval certificates from local government authorities on or after June 1, 2007 but has not completed its filing with MOFCOM. Although this notice has been repealed in May 2013, the restrictions remain in use in other subsequent regulations.

On April 6, 2010, the State Council issued the Opinions on Further Enhancing the Utilization of Foreign Investment (《關於進一步做好利用外資工作的若干意見》), which provides that, the projects with total investment (including capital increase) less than US\$300 million within the category of industries in which foreign investment is encouraged or permitted as listed in the Catalog

of Guidance on Industries for Foreign Investment, may be approved by local governments, except for those required to be approved by relevant departments of the State Council under the Catalog of Investment Projects Approved by the Government (《政府核准的投資項目目錄》).

On November 22, 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (《關於加強外商投資房地產業審批備案管理的通知》), which provides that, among other things, in the case that a real estate enterprise is established in China with overseas capital, it is prohibited to purchase and/or sell real estate properties completed or under construction for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management.

On August 19, 2015, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Circular on Adjusting the Admittance and Administration of Foreign Capital in the Real Estate Market (《關於調整房地產市場外資准入和管理有關政策的通知》). This circular changes the registered capital requirement in Opinion 171 and stipulates that when a foreign investor establishes a property development enterprise in China where the total investment amount is more than US\$10 million and less than US\$30 million, such enterprise's registered capital must be not less than 40% of its total investment amount (where the total investment amount is less than US\$12.5 million, such enterprise's registered capital must be not less than US\$5 million), and where the total investment amount is US\$30 million or more, such enterprise's registered capital must be not less than 33.3% of its total investment amount (where the total investment amount is less than US\$36 million, such enterprise's registered capital must be not less than US\$12 million).

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

Under the Guidance Catalog, the construction of golf course and villas falls within the category of industries in which foreign investment is prohibited, the construction and operation of large theme parks fall within the restricted category, and other real estate development falls within the category of industries in which foreign investment is permitted. On June 28, 2017, MOFCOM and NDRC jointly issued the revised Guidance Catalog effective from July 28, 2017, according to which foreign investment is permitted in the real estate development industry.

On September 3, 2016, the Standing Committee of the National People's Congress revised four laws by the Decision of the Standing Committee of the National People's Congress on Revising Four Laws including the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》), which provides that record-filings rather than approvals, are required for the establishment, major change and extension of the operating period for foreign-invested enterprises that are not subject to the implementation of special administrative measures on admittance which is to be prescribed by the State Council. On October 8, 2016, the NDRC and the MOFCOM jointly issued a notice, which was approved by the State Council, to specify the scope of enterprises that are subject to the implementation of special administrative measures on admittance. The notice includes enterprises that are within the restricted and prohibited categories of the Guidance

Catalog, and those within the encouraged category but subject to equity or senior management restrictions. As for the establishment and change of foreign-invested enterprises by foreign merger and acquisition, the relevant existing provisions shall prevail.

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法) which is effective on January 1, 2020. Pursuant to it, foreign investors shall not invest in any field forbidden by the negative list for access of foreign investment (hereinafter referred to as the "negative list"). For any field on the negative list, foreign investors shall conform to the investment conditions provided in the negative list. Fields not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated uniformly.

During the process of foreign investment, where verification and record-filing of a foreign investment project are required, relevant provisions of the State shall be followed.

If a foreign investor invests in an industry or field where license is required by the law, relevant licensing formalities shall be handled as stipulated by law.

Unless otherwise provided by laws or administrative regulations, relevant government department shall review the application for license filed by the foreign investor based on the same conditions and procedures as those for domestic investment.

On December 30, 2019, MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Information Report of Foreign Investment (外商投資信息報告辦法), according to which, since January 1, 2020, the relevant reports to the commerce authorities through the enterprise registration system will be required for the establishment of foreign-invested enterprises and the subsequent changes, instead of filing with or obtaining approvals from the commerce authorities.

On December 31, 2019, the National People's Congress promulgated the Implementing Regulations of the Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法實施條例) (the "Regulations"), which is effective from January 1, 2020. Pursuant to the Regulations, foreign investors shall not invest in any field forbidden in the negative list, and foreign investors invest in fields restricted by the negative list, foreign investors shall conform to the requirements of the shareholding ratio and senior executives specified in the negative list. Where foreign investors invest in an industry or field requiring relevant licensing, the pertinent competent department responsible for granting the licensing shall review the foreign investor's application for relevant licensing in line with the conditions and procedures consistent with those for domestic investment, without adding more or applying stricter licensing conditions, increasing review processes, review materials or putting forward other requirements against such foreign investor, unless otherwise stipulated by laws and administrative regulations. Foreign investors or foreign-invested enterprises shall submit their investment information to competent departments for commerce through the enterprise registration system and the National Enterprise Credit Information Publicity System.

Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of PBOC, is empowered with the functions of administering 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 currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the Bank of China (中國銀行) or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center had to obtain the prior approval of SAFE.

On December 28, 1993, PBOC, under the authority of the State Council, promulgated the Notice of PBOC Concerning Further Reform of the Foreign Currency Control System (《中國人民銀行關於進一步改革外匯管理體制的公告》), effective from January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯暫行管理規定》) (the “Provisional Regulations”), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply of Renminbi. Pursuant to such systems, PBOC sets and publishes the daily Renminbi-US dollar exchange rate. Such exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. Also, PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of 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 January 29, 1996, the State Council promulgated Regulations for the control of Foreign Exchange (《中華人民共和國外匯管理條例》) (“Control of Foreign Exchange Regulations”) which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 5, 2008. Such amendment affirms that the State shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises (《外商投資企業實行銀行結售匯工作實施方案》). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (《關於停辦外匯調劑業務的通知》) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

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. PBOC will announce the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

The Control of Foreign Exchange Regulations was amended by the State Council on August 1, 2008 and came effective on August 5, 2008. Under the revised Control of Foreign Exchange Regulations, the compulsory settlement of foreign exchange is dropped. As long as the capital inflow and outflow under the current accounts are based upon real and legal transactions, individuals and entities may keep their income in foreign currencies inside or outside China according to the provisions and terms to be set forth by SAFE. The foreign exchange income generated from current account transactions may be retained or sold to financial institutions engaged in foreign currency settlement and exchange. Whether to retain or sell the foreign exchange income generated from capital account transactions to financial institutions is subject to approvals from SAFE or its

branches, except for otherwise stipulated by the State. Foreign exchange or settled Renminbi of capital account must be used in the way as approved by SAFE or its branches, and SAFE or its branches are empowered to supervise the utility of the foreign exchange or settled Renminbi of capital account and the alterations of the capital accounts. The Renminbi follows a managed floating exchange rate in line with the market demand and supply. A domestic individual or entity who conducts the overseas direct investment or overseas issue and transaction of negotiable securities and derivative financial products shall file with competent authorities of the PRC. Furthermore, such individual or entity shall apply for the approval on such investment, issue or transaction form relevant authorities prior to the filing if otherwise required by relevant PRC laws and regulations.

In October 2005, SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《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》) (“Notice 75”) which became effective on November 1, 2005. The notice replaced the two regulations issued by SAFE in January and April 2005 mentioned above. In July 2014, Notice 75 was superseded by the Notice Regarding Certain Administrative Measures on Offshore Investing and Financing and Round-trip Investment by PRC Residents through Special Purpose Vehicles (《關於境內居民通過境外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》) (“Notice 37”) issued by SAFE which became effective on July 4, 2014. Notice 37 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before making capital contribution to any company outside of China (an “offshore SPV”) with onshore or offshore assets and equity interests legally owned by PRC residents. In addition, any PRC individual resident who is the shareholder of an offshore SPV is required to update its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with change of basic information of the offshore SPV, such as its company name, business term, shareholding by individual PRC resident, merger, division and, with respect to the individual PRC resident, in case of any increase or decrease of capital in the offshore SPV, transfer of shares or swap of shares by the individual PRC resident.

On September 1, 2006, the then PRC Ministry of Construction and SAFE promulgated the Circular on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market (《關於規範房地產市場外匯有關問題的通知》), which was amended in May 2015. This circular states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the RMB account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange current account of the real estate development enterprises; (ii) where the real estate purchase fails to complete and the foreign purchaser intends to remit the purchase price in RMB back to foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estates in China and the purchase price received in RMB is remitted to foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if a FIREEs land use rights certificate has not been obtained or the paid-in capital is less than 35% of the total investment amount of the project, the FIREEs is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans.

On March 30, 2015, SAFE issued the Notice on the Reform of the Administration of Foreign Exchange Registered Capital Settlement for Foreign-Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本結匯管理方式的通知》) effective from June 1, 2015, under which a reform on the administration of foreign exchange capital settlement for foreign-invested enterprises is carried out in China and foreign-invested enterprises may make equity investments within China by

utilizing the RMB funds converted from their foreign exchange registered capital. Besides the remittance of equity transfer payments in the original foreign currency, foreign-invested enterprises mainly engaged in investment activities (including foreign investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) are permitted to directly convert foreign capital funds into RMB funds or transfer the RMB funds converted from the foreign capital account to the bank account of the investee enterprise based on the actual investment scale on the premise that the domestic investment projects are authentic and in compliance. Equity investments within China remitted through equity transfer payments in the original foreign currency by general foreign-invested enterprises other than the above enterprises shall be governed by the current domestic reinvestment laws and regulations. If such foreign-invested enterprises make equity investments in China by using converted RMB funds, the investee enterprise shall first register this domestic reinvestment activity with the administration of the foreign exchange (bank) of its place of incorporation and open a corresponding RMB account for depositing the converted RMB funds. The foreign-invested enterprises shall then transfer the converted RMB funds into the RMB account of the investee enterprise based on the actual investment scale. If the investee enterprise continues to make equity investments in China, the above principles shall apply. On June 9, 2016, SAFE issued the Notice to Reform and Regulate the Administration Policies of Foreign Exchange Capital Settlement (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) to further reform foreign exchange capital settlement nationwide.

On January 26, 2017, the SAFE issued the Circular on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance (《關於進一步推進外匯管理改革完善真實合規性審核的通知》) to improve examination on the foreign direct investment of domestic institutional investors and allow the funds of overseas loans under domestic guarantee to be transferred for domestic use.

On October 23, 2019, SAFE issued the Circular to Further Promote Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》) to further ease cross-border trade and investment, such as canceling restrictions on the use of foreign exchange settlement in domestic asset transaction accounts and allowing foreign non-investment enterprises to carry out domestic equity investment provided that such investment will not violate applicable special administrative measures (negative list) for foreign investment access and the projects to be invested shall be authentic and legitimate.

Taxation in China

Income Tax

Prior to the EIT Law that became effective on January 1, 2008 and as amended on February 24, 2017 and further amended on December 29, 2018, our PRC subsidiaries and joint ventures were generally subject to a 33% enterprise income tax. Under the EIT Law, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The EIT Law provides certain relieves to enterprises established prior to March 16, 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises were entitled to preferential income tax rate before the effectiveness of the EIT Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, where the preferential tax treatment had not commenced due to losses or accumulated losses not being fully offset, such preferential tax treatment is deemed to commence from January 1, 2008 and expire on December 31, 2013. In addition, dividends from PRC subsidiaries to their foreign shareholders are subject to a withholding tax at a rate of 10% unless a lower treaty rate is applicable. Under the EIT

Law, enterprises established under the laws of foreign jurisdictions but whose “de facto management bodies” are 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 EIT Law, a “de facto management body” is defined as one that has material and overall management control over the business, personnel, accounts and properties of an enterprise. There is uncertainty as to how this law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Business Tax and Value-added Tax

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax (《中華人民共和國營業稅暫行條例》), which was promulgated in 1994 and amended in 2008. The activities to which the business tax applies include construction, leases and sales of real estate properties in China. The tax is a turnover tax charged on gross revenue. No deduction of the tax incurred on purchased services or materials is allowed. However, deductions from gross revenue are allowed for subcontracting fees paid among the transportation, tourism and construction industries. The rate of business tax payable for property sale and leasing transactions is 5% of the proceeds from the sale or leasing of real estate/immovable properties in China.

In March 2015, the Ministry of Finance and SAT jointly issued the Notice on Adjusting the Policies of Business Tax on Re-sale of Personal Residential Properties (《關於調整個人住房轉讓營業稅政策的通知》). Where individuals sell houses that have been procured for less than two years, they shall pay the business tax in full; where individuals sell the non-ordinary houses that have been procured for more than two years (inclusive), they shall pay the business tax on the balance of their sale income minus the price for purchasing the houses; where individuals sell ordinary houses that have been procured for more than two years (inclusive), they shall be exempted from the business tax.

On November 16, 2011, the State Administration of Taxation and Ministry of Finance jointly promulgated the Circular on Printing and Distributing the Pilot Proposal for the Collection of Value-Added Tax in Lieu of Business Tax (關於印發《營業稅改徵增值稅試點方案》的通知). According to the Proposal, the general VAT calculation method will in principle apply to the transportation industry, the construction industry, the post and telecommunication industry, the modern service industry, the culture and sports industry, and the sale of real property and the transfer of intangible assets. The pilot program commenced on January 1, 2012, and will timely improved and expanded according to the circumstances.

In March 2016, the Ministry of Finance and SAT jointly issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》). Upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

On November 19, 2017, the Interim Regulations of the People’s Republic of China on Business Tax was abolished and the Interim Regulations of the People’s Republic of China on Value Added Tax (中華人民共和國增值稅暫行條例) was revised by the State Council. According to the revised

Interim Regulations of the People’s Republic of China on Value Added Tax, selling goods, providing labor services of processing, repairs or maintenance, or selling services, intangible assets or real property in the PRC, or importing goods to the PRC, shall be subject to value added tax.

According to a notice jointly issued by MOF and SAT in April 2018, starting from May 1, 2018, the value added tax rate was lowered from 17% for manufacturing and some other industries, and from 11% to 10% for transportation, construction, real estate leasing service, sale of real estate, basic telecommunication services and farm production. According to a joint notice issued by MOF, SAT and the General Administration of Customs in March 2019, the VAT rate of 16% and 10% have been further reduced to 13% and 9%, respectively, commencing April 1, 2019.

Land Appreciation Tax

Under the Provisional Regulations of the People’s Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) of 1994 and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the “deductible items” that include the following:

- Payment made to acquire land use rights;
- Costs and charges incurred in connection with land development;
- Construction costs and charges in the case of newly constructed buildings and facilities;
- Assessed value in the case of old buildings and facilities;
- Taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and
- Other items allowed by the Ministry of Finance.

The tax rate is separated into four categories of progressive tax rates, ranging from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

<u>Appreciation value</u>	<u>LAT rate</u>
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 (i.e. the residences built in accordance with the local standard for general civilian used residential properties, excluding deluxe apartments, houses, resorts etc.), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the state;

- Due to redeployment of work or improvement of living standard, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities' approval.

According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land Appreciation Tax Detailed Implementation Rules and the Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts Signed before January 1, 1994 (《關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知》) issued by the Ministry of Finance in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- Real estate transfer contracts executed before January 1, 1994; and
- First time transfers of land use rights and/or premises and buildings during the five years commencing on January 1, 1994 if the real estate development contracts were executed or the development projects were approved before January 1, 1994 and the capital has been injected for the development in compliance with the relevant regulations.

On December 24, 1999, the Ministry of Finance and SAT issued the Notice in Respect of the Extension of the Period for the Land Appreciation Tax Exemption Policy (《關於土地增值稅優惠政策延期的通知》) that extended the period for the Land Appreciation Tax exemption policy as mentioned above to the end of 2000.

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995 respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, SAT, the then PRC Ministry of Construction and State Land Administration Bureau (the predecessor of the Ministry of Land and Resources) separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership title certificates.

SAT issued a further notice, namely, the Notice on Careful Management Work of LAT Collection (《關於認真做好土地增值稅徵收管理工作的通知》) in July 2002 to require local tax authorities to require prepayment of LAT on basis of proceeds from pre-sale of real estate. This requirement is restated in the Notice of State on Further Strengthening of Administration Work in Relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns (《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 Settlement of the LAT Imposed on Real Property 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》, the "Circular"), effective from February 1, 2007 and amended on 15 June, 2018.

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

- The property development project has been completed and sold out;

- The entire uncompleted and unsettled development project is transferred; or
- The land use rights of the relevant project is transferred.

In addition, the competent tax departments may require a property developer to settle the LAT in any of the following circumstances:

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

The tax bureaus at the provincial level will, taking account of the local practical conditions, stipulate specific rules or measures on the management of the LAT settlement in accordance with the Circular.

SAT issued the Administrative Rules for the Liquidation of Land Appreciation Tax (《關於印發〈土地增值稅清算管理規程〉的通知》) effective from June 1, 2009 and amended on 7 July, 2016. SAT reiterated the above requirements in the new rules.

On May 19, 2010, SAT has issued the Circular on Issues Concerning Settlement of Land Value-added Tax (《關於土地增值稅清算有關問題的通知》 the Circular) which clarifies the revenue recognition in the settlement of land value-added tax and other relevant issues. According to the Circular, in the settlement of land value-added tax, if the sales invoices of commodity houses are issued in full, the revenue shall be recognized based on the amount indicated in the invoices; if the sales invoices of commodity houses are not issued or are issued in part, the revenue shall be recognized based on the purchase price indicated in the sales contract as well as other income. If the area of a commodity house specified in a sales contract is inconsistent with the result obtained by the relevant authorities after on-site survey and the purchase price is made up or returned before the settlement of land value-added tax, adjustments shall be made in the calculation of land value-added tax. The Circular provides that the deed tax paid by a real estate development enterprise for land use rights shall be treated as the “relevant fees paid in accordance with the uniform regulations of the state” and be deducted from the “amount paid for land use rights.”

On May 25, 2010, SAT published the Circular on Strengthening the Collection and Administration of Land Value Increment Tax (《關於加強土地增值稅徵管工作的通知》, “Circular”) to require all local government to scientifically formulate the tax ratio and strengthen the pre-tax of land value increment tax. According to the Circular, all local government shall made adjustments to the current pre-tax ratio. In addition to safeguarding housing, the pre-tax ratio of provinces in the eastern region shall not be lower than 2%, while the provinces in middle and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%; and the local government shall determine the pre-tax ratio applicable to different types of real estate.

Urban Land Use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988 and revised on December 31, 2006 and December 7, 2013 and March 2, 2019, respectively, the land use tax in respect of urban land is levied according to the area of the relevant land. The annual tax as of January 1, 2007 shall be between RMB0.6 and RMB30.0 per square meter of urban land, calculated according to the tax rate determined by local tax authorities.

Stamp Duty

Under the Tentative Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》) promulgated by the State Council in August 1988 and amended on January 8, 2011, for building property transfer instruments, 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 land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5.0 per item.

Deed Tax

Under the PRC Tentative Regulations on Deed Tax (《中華人民共和國契稅暫行條例》) promulgated by the State Council on July 7, 1997 and amended on March 2, 2019, a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of mainland China. These taxable transfers include:

- Grant of use right of state-owned land;
- Sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- Sale, gift and exchange of real properties.

Deed tax rate is 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, the Ministry of Finance and MOHURD issued the Circular on Adjustments to Policies on Preferential Deed Tax and Individual Income Tax on 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》), which provides that where an individual purchases a common house which is the sole house for his/her family (the family members include the purchaser, his/her spouse and minor child(children), same below) to live in, deed tax thereon shall be levied at a reduced half rate. Where an individual purchases a common house of 90 sq.m. or less, which is 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 common houses that fails to satisfy the above provisions, 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 implemented on February 22, 2016, the rate of deed tax payable for real estate transactions was adjusted downward

as follows:

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

If a taxpayer applies for tax preferential treatments, the competent real estate authority at the location of the property will issue written search results on the housing status of the taxpayer's household pursuant to his/her application or authorization and promptly provide the search results and the relevant housing status information to the tax authority. Detailed operation measures will be collectively formulated by the competent financial, tax and real estate departments of various provinces, autonomous regions and municipalities.

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

Property Tax

Under the Tentative Regulations of the People's Republic of China on Property Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council in September 1986 and amended on January 8, 2011, property tax is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental.

The State Council recently approved, on a trial basis, the launch of a new property tax scheme in selected cities. The detailed measures will be formulated by the governments of the pilot provinces, autonomous regions or municipalities directly under the central government. On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on January 28, 2011. Under the Shanghai Interim Rules of the Trial in Levy of Property Tax on Certain Houses (《上海市開展對部分個人住房徵收房產稅試點的暫行辦法》), among other things, (i) starting on January 28, 2011, Shanghai shall, on a trial basis, levy property taxes on a newly bought second or succeeding house in Shanghai which is purchased by a local resident family and each newly bought house in Shanghai which is purchased by a non-local resident family; (ii) the applicable rate of the property tax is 0.4% or 0.6%, subject to specified circumstances; and (iii) the property tax shall be temporarily payable on the basis of 70% of the transaction value of the taxable house. Moreover, the Shanghai property tax rule provides several measures for tax deduction or exemption, including the rule that if a local resident family's GFA per capita, calculated on the basis of the consolidated living space (including the newly bought house) owned by such family, is not more than 60 sq.m., such family is temporarily exempted from property tax when purchasing a second house or more after January 28, 2011 in Shanghai. Under the measures issued by the Chongqing government, property tax will be imposed on (i) stand-alone residential properties (such as villas) owned by individuals, (ii) high-end residential properties purchased by individuals on or after January 28, 2011, the purchase prices per square meter of which are two or more times of the average price of new residential properties developed within the 9 major districts of Chongqing in the last two years and (iii) the second or further ordinary residential properties purchased on or after January 28, 2011 by non-resident individuals who are not employed in and do not own an enterprise in Chongqing, at rates ranging from 0.5% to 1.2% of the purchase

price of the property. These two governments may issue additional measures to tighten the levy of property tax. It is also expected that more local governments will follow Shanghai and Chongqing to impose property tax on commodity properties.

Municipal Maintenance Tax

Under the Tentative Regulations of the People's Republic of China on Municipal Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》) promulgated by the State Council in 1985 and amended on January 8, 2011, taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax are required to pay municipal maintenance 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 or 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 Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which provides that from December 1, 2010, the regulations on urban maintenance and construction tax 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 finance and tax competent authorities under the State Council since 1985 shall be also applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Education Surcharge

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

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 (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which provides that from December 1, 2010, the rules on 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 finance and tax competent authorities under the State Council since 1986 shall be also applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of the date of this offering memorandum.

Name	Age	Position
Kong Jianmin	53	Chairman, executive director, a member of remuneration committee, chairman of nomination committee
Kong Jiantao	50	Executive director and chief executive officer
Kong Jiannan.	55	Executive director and executive vice president
Cai Fengjia	51	Executive director, chief executive officer of real estate business
Lee Ka Sze, Carmelo <i>JP</i>	60	Independent non-executive director and a member of the audit committee
Tam Chun Fai	58	Independent non-executive director, chairman of the audit committee, chairman of the remuneration committee and a member of nomination committee
Li Binhai	71	Independent non-executive director, a member of the remuneration committee, nomination committee and audit committee
Li Ning	56	General manager of product research and development of the Group
Chen Guangchuan	52	Vice president of the Group
Jin Yanlong	41	General manager of Northern China District
Huang Yanping	46	Vice president of the finance and treasury department of the Group
Luo Qing.	56	General manager of construction sector of the Group
Yao Zhimin	59	Vice president of the finance and treasury department of the Group
Chan Kin Wai	39	Company Secretary

Executive Directors

Kong Jianmin, aged 53, is the founder of the Group and an executive director and chairman of the Company. Mr. Kong is also a member of the remuneration committee and the chairman of the nomination committee of the Company. Mr. Kong is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business operation and sales and marketing. On June 19, 2020, Mr. Kong was appointed as the non-executive director and the chairman of the directors of KWG Living Group Holdings Limited (the shares are listed on the main board of the Hong Kong Stock Exchange on October 30, 2020 with the stock code of 3913) (“KWG Living”) Mr. Kong graduated from Jinan University majoring in computer science in 1989. Mr. Kong has over 26 years of experience in property development and investment. Mr. Kong is a brother of Kong Jiantao and Kong Jiannan. Saved as disclosed above, Mr. Kong is also a director of most of the Company’s subsidiaries incorporated in BVI, Hong Kong and the People’s Republic of China.

Kong Jiantao, aged 50, is an executive director and the chief executive officer of the Company. Mr. Kong is responsible for the overall operation of the Group's projects. He has over 26 years of experience in property development and has been a director of the Group since 1995. Mr. Kong is the younger brother of KONG Jianmin and KONG Jiannan. Mr. Kong is also a director of most of the Company's subsidiaries incorporated in the BVI, Hong Kong and the PRC.

Kong Jiannan, aged 55, is an executive director and executive vice president of the Company. On June 19, 2020, Mr. Kong was appointed as the executive director and chief executive officer of KWG Living. He is a graduate of The Open University of China and joined the Group in 1999. Mr. Kong is the elder brother of KONG Jianmin and KONG Jiantao. Mr. Kong is also a director of most of the Company's subsidiaries incorporated in the BVI, Hong Kong and the PRC.

Cai Fengjia, aged 51, is an executive director and chief executive officer of real estate business of the Company. Mr. Cai graduated from Hunan University with a bachelor's degree in architecture and is a registered architect. Mr. Cai joined the Group in May 2007 and has served as the deputy general manager of its Suzhou's real estate sector, the general manager of its Hangzhou's real estate sector and general manager of Eastern China District. He was appointed as chief executive officer of real estate business of the Company in December 2017. Prior to joining the Group, Mr. Cai worked in Guangdong Architectural Design Institute from 1992 to 2005.

Independent Non-Executive Directors

Lee Ka Sze, Carmelo JP, aged 60, is an independent non-executive director and a member of the audit committee of the Company. Mr. Lee joined the Company in June 2007. He received a bachelor's degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is a non-executive director of Playmates Holdings Limited and Safety Godown Company Limited, both of which are listed on the Hong Kong Stock Exchange. Mr. Lee is a member of chairmen pool of Listing Review Committee of the Stock Exchange. He is also a member of HKSAR InnoHK Steering Committee, the chairman of the Appeal Tribunal Panel (Buildings) (Section 45 of the Buildings Ordinance, Chapter 123 of the Laws of Hong Kong), a convenor cum member of Financial Reporting Review Panel of The Financial Reporting Council, a member of Campaign Committee of The Community Chest of Hong Kong and the co-chairman of The Community Chest Corporate Challenge Half Marathon. He was the chairman of the Listing Committee of the Stock Exchange from May 2012 to July 2015 after serving as a deputy chairman and a member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003, respectively. Mr. Lee resigned as a non-executive director of four companies listed on the Hong Kong Stock Exchange, namely Planetree International Development Limited (formerly known as Yugang International Limited), Hopewell Holdings Limited (which has been withdrawn from listing in May 2019), Termbray Industries International (Holdings) Limited and CSPC Pharmaceutical Group Limited respectively with effect from April 30, 2019, May 3, 2019, September 13, 2019 and January 1, 2021. He also resigned as an independent non-executive director of two companies listed on the Hong Kong Stock Exchange, namely China Pacific Insurance (Group) Co., Ltd and Esprit Holdings Limited respectively with effect from May 12, 2020 and January 1, 2021.

Tam Chun Fai, aged 58, is an independent non-executive director, the chairman of the audit committee, the chairman of the remuneration committee and a member of the nomination committee of the Company. Mr. Tam joined the Company in June 2007. He graduated from The Hong Kong Polytechnic University with a bachelor's degree in Accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and Chartered Financial Analyst. Mr. Tam has over 36 years of experience in auditing, corporate advisory services as well as financial management and compliance work. He is an executive director, the chief financial officer and company secretary of Beijing Enterprises Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the main board of the Hong Kong Stock Exchange.

Li Binhai, aged 71, is an independent non-executive director, a member of the remuneration committee, nomination committee and the audit committee. He was the former chairman of Poly Real Estate Group Co., Ltd. ("Poly Real Estate," together with its subsidiaries, the "Poly Real Estate Group"), a company listed on the Shanghai Stock Exchange and retired on May 31, 2010 after 20 years at the helm of Poly Real Estate. Before his retirement, he held various positions within the Poly Real Estate Group, including the general manager of Guangzhou Poly Real Estate Development Corporation, director and deputy general manager of Poly Southern Group Co., Ltd. and chief economist of China Poly Group Corporation.

Senior Management

Li Ning, aged 56, is the general manager of product research and development of the Group. Mr. Li joined the Group in November 2010 and is mainly responsible for the development and design of products of the Group. Mr. Li is a grade-one national registered architect and senior architecture design engineer. Mr. Li graduated from Murdoch University with a master's degree in business administration. Mr. Li has over 31 years of experience in designing large-scaled integrated architecture and operational management.

Chen Guangchuan, aged 52, is the vice president of the Group. Mr. Chen graduated from Guangzhou Open University, majoring in business administration. Mr. Chen joined the Group in October 2009 and was the general manager of its Hainan's real estate section. He is now mainly responsible for the management of land reserves in China as well as financing management of the Group. Before joining the Group, Mr. Chen was a general manager of a real estate company.

Jin Yanlong, aged 41, is the general manager of the Group's Northern China District. Mr. Jin obtained the bachelor's degree in electrical engineering and automation from Nanjing Tech University. Mr. Jin joined the Group in June 2008 and was the engineering manager, the deputy general manager of its Hangzhou's real estate sector and the general manager of its Suzhou's real estate sector. Currently, Mr. Jin is mainly responsible for the overall management and operation of Northern China District of the Group.

Huang Yanping, aged 46, is the vice president of the finance and treasury department of the Group. Ms. Huang graduated from the University of Maryland in the US with a master's degree in business administration. Ms. Huang joined the Group in September 2008, and was the director of finance and treasury and the general manager of finance and treasury of the Group. Currently, Ms. Huang is responsible for the management of finance and treasury of the Group. She has 24 years of extensive experience in financial management.

Luo Qing, aged 56, is the general manager of construction sector of the Group. Mr. Luo graduated from South China University of Technology, majoring in construction engineering. Mr. Luo joined the Group in August 2001, and was the general manager of its Chengdu's real estate sector, the general manager of its Beijing's real estate sector and the general manager of its Wuhan's real estate sector. Before joining the Group, Mr. Luo worked in a sound first-tier main construction contractor in Guangzhou. He has 36 years of extensive experience in the management of construction work.

Yao Zhimin, aged 59, is the vice president of the treasury department of the Group. Mr. Yao graduated from the Shenzhen University with a bachelor's degree in finance. Mr. Yao joined the Group in March 2018 as a vice president of the finance and treasury department, and is responsible for the management of treasury activities. Prior to joining the Group, Mr. Yao has worked as a president and general manager at the Guangzhou Xiajiu Lu sub-branch, Guangzhou Dezhengzhong Lu sub-branch, settlement and electronic banking department of Guangzhou branch, Guangzhou Baiyun Lu sub-branch of the Industrial and Commercial Bank of China. Mr. Yao has 31 years of experience in the management of treasury activities.

Company Secretary

Chan Kin Wai, aged 39, is the company secretary of the Company. Mr. Chan graduated from the City University of Hong Kong with a bachelor's degree in accounting and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan joined the Group in June 2011 as the finance manager. Prior to joining the Group, he was a manager of an international firm of certified public accountants.

Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the Board's approval. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of our Group.

During 2018, 2019 and 2020, the aggregate amount of remuneration paid by us to our directors was approximately RMB27.7 million, RMB23.1 million and RMB18.4 million (US\$2.8 million), respectively.

Board Committees

Audit Committee

The Audit Committee was established in 2007. The terms of reference of the Audit Committee was determined and updated in accordance with the Corporate Governance Code, which was amended from time to time. As of December 31, 2020, the Audit Committee comprises three members who are independent non-executive Directors, namely Mr. TAM Chun Fai (chairman), LEE Ka Sze, Carmelo JP, and Mr. LI Binhai.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors, review financial statements and express material advice in respect of financial reporting matters, as well as review the financial control, internal control, risk management systems and corporate governance of the Company. The terms of reference of the Audit Committee are available for inspection at the websites of the Company and the Stock Exchange respectively.

Remuneration Committee

The Remuneration Committee was established in 2007. The terms of reference of the Remuneration Committee was determined and updated in accordance with the Corporate Governance Code, which was amended from time to time. As of December 31, 2020, the Remuneration Committee comprises an executive Director, namely Mr.KONG Jianmin, and two independent non-executive Directors, namely Mr. TAM Chun Fai (chairman) and Mr. LI Binhai.

The primary duties of the Remuneration Committee are to formulate and make recommendations on remuneration policy and remuneration package of the Directors and members of senior management to the Board. The terms of reference of the Remuneration Committee are available for inspection at the websites of the Company and the Stock Exchange respectively.

Nomination Committee

The Nomination Committee was established in 2007. The terms of reference of the Nomination Committee was determined and updated in accordance with the Corporate Governance Code, which was amended from time to time. As of December 31, 2020, the Nomination Committee comprises an executive Director, namely Mr. KONG Jianmin (chairman), and two independent non-executive Directors, namely Mr. TAM Chun Fai and Mr. LI Binhai.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and make recommendations to the Board regarding the selection of director candidates. The terms of reference of the Nomination Committee are available for inspection at the websites of the Company and the Stock Exchange respectively.

Share Option Scheme

Pursuant to the shareholder's resolutions of the Company passed on February 9, 2018, the Company has adopted a new share option scheme ("Share Option Scheme"). The Share Option Scheme will remain in force for a period of 10 years, commencing from February 13, 2018.

As of December 31, 2020, details of the options under the Share Option Scheme are as follows:

Grantees	Date of grant	Exercise period	Number of share options				As of December 31, 2020	Exercise price per share (HK\$)	Closing price per share immediately before the date of grant (HK\$)
			As at 1 January 2020	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year			
Employees ⁽¹⁾	February 13, 2018	⁽²⁾	1,494,000	—	(392,000)	(153,500)	948,500	11.12	10.70
		Total	<u>1,494,000</u>	<u>—</u>	<u>(392,000)</u>	<u>(153,500)</u>	<u>948,500</u>		

Notes:

- (1) During the year, all of the share options were granted to certain employees of the Group. None of the grantees is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined in the Listing Rules).
- (2) (i) One-third of the respective options granted are exercisable from the first anniversary of the date of grant (i.e. February 13, 2019); (ii) one-third of the respective options granted are exercisable from the second anniversary of the date of grant (i.e. February 13, 2020); and (iii) the respective remaining options granted are exercisable from the date of the third anniversary of the date of grant (i.e. February 13, 2021).

SUBSTANTIAL SHAREHOLDERS

As of December 31, 2020, to the knowledge of the Directors, the following entities (other than a Director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

<u>Name</u>	<u>Capacity</u>	<u>Number of shares held⁽¹⁾</u>	<u>Percentage of issued share capital⁽²⁾</u>
Plus Earn ⁽³⁾	Beneficial owner	1,299,046,500	40.84%
	Interests of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	399,053,500	12.55%
Hero Fine ⁽⁴⁾	Beneficial owner	295,703,152	9.30%
Right Rich ⁽⁵⁾	Beneficial owner	254,715,000	8.01%
	Interests of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	1,443,385,000	45.38%
Peace Kind ⁽⁶⁾	Beneficial owner	144,338,500	4.54%
	Interests of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	1,553,761,500	48.85%

Notes:

- (1) Share(s) of HK\$0.10 each in the capital of the Company.
- (2) As of December 31, 2020, the number of shares in issue was 3,180,505,853 shares.
- (3) Plus Earn is legally and beneficially owned as to 100% by Mr. Kong Jianmin. Pursuant to the SFO, Plus Earn is interested and deemed to be interested in a total of 1,698,100,000 shares of the Company including (i) 1,299,046,500 shares directly held by it; (ii) 254,715,000 shares held by Right Rich and (iii) 144,338,500 shares held by Peace Kind pursuant to the Shareholders' Agreement.
- (4) Hero Fine is legally and beneficially owned as to 100% by Mr. Kong Jianmin.
- (5) Right Rich is legally and beneficially owned as to 100% by Mr. Kong Jiantao. Pursuant to the SFO, Right Rich is interested and deemed to be interested in a total of 1,698,100,000 shares of the Company including (i) 254,715,000 shares directly held by it and (ii) 1,299,046,500 shares held by Plus Earn and 144,338,500 shares held by Peace Kind pursuant to the Shareholders' Agreement.
- (6) Peace Kind is legally and beneficially owned as to 100% by Mr. Kong Jiannan. Pursuant to the SFO, Peace Kind is interested and deemed to be interested in a total of 1,698,100,000 shares of the Company including (i) 144,338,500 shares directly held by it and (ii) 1,299,046,500 shares held by Plus Earn and 254,715,000 shares held by Right Rich pursuant to the Shareholders' Agreement.

Save as disclosed above, as of December 31, 2020, no other person (other than the Directors and chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between 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 and in our interests and the interests of our shareholders.

As a listed company on the Hong Kong Stock Exchange, we are subject to Chapter 14A of the Listing Rules, which requires that certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring independent shareholders’ approval has been so approved, or otherwise exempted from compliance with the relevant independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Major Related Party Transactions

The table below sets forth our related party transactions for the years indicated.

	For the year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
				(Unaudited)
				(in thousands)
Compensation paid to key management personnel				
Short term employee benefits	35,564	33,226	28,285	4,335
Equity-settled share option expenses	10,584	6,690	5,198	797
Post-employment benefits	728	630	229	35
Total	46,876	40,546	33,712	5,167

Guarantee Granted to Related Parties

As of December 31, 2020, the Group had provided guarantees in respect of bank loans to the extent of RMB32,939.7 million (US\$5,048.2 million) for joint ventures and associates.

Management Services

In 2018, 2019 and 2020, the Group provided project management services to certain joint ventures of the Group with a total cash consideration of approximately RMB213.5 million, RMB366.1 million and RMB420.1 million (US\$64.4 million), respectively.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2020, our total borrowings amounted to RMB77,860.6 million (US\$11,932.7 million). As of December 31, 2020, we had a total amount of RMB20,145.0 million (US\$3,087.4 million) of domestic corporate bonds outstanding. As of December 31, 2020, we had a total amount of RMB26,073.2 million (US\$3,995.9 million) of senior notes outstanding. Subsequent to December 31, 2020, we issued additional indebtedness. We set forth below a summary of the material terms and conditions of our loans, indebtedness and other obligations.

Project Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks and trust companies, including primarily Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China, China Minsheng Banking Corp., Ltd., Standard Chartered Bank, Shanghai Pudong Development Bank, Hengsheng Bank, Hang Seng Bank (China) Limited, Bank of East Asia, Shanghai International Trust Co., Ltd., Tibet Trust Co., Ltd, Lujiazui International Trust Co., Ltd., China Guangfa Bank, China Merchants Bank and Wing Lung Bank Limited. These loans typically are project loans to finance the construction or the operation of investment properties of our projects (the “project loans”) and terms ranging from one to 15 years, which generally correspond to the construction periods or the operation of investment properties of the particular projects. Certain of our PRC project loans require prepayment of the loan if a certain percentage of GFA of the relevant project has been sold.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate *per annum*. Floating interest rates generally are subject to review by the banks annually. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders’ prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties with the assets funded by the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations or change the company’s status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;

- incur additional debts;
- reduce their registered capital;
- transfer part or all of the liabilities under the loans to a third party; and
- prepay the loan.

Dividend Restriction

Pursuant to the project loans with certain PRC banks, primarily including Bank of China, Agricultural Bank of China, Standard Chartered Bank, Shanghai Pudong Development Bank, China Citic Bank, China Construction Bank, Nanyang Commercial Bank (China) Limited and Industrial, Commercial Bank of China and China Merchants Bank Co., Ltd., some of our PRC subsidiaries also agreed not to distribute any dividends:

- if the borrower is experiencing a sustained event of default;
- if the borrower is unable to repay principal and interest in accordance with the relevant repayment schedule;
- if the borrowers' after-tax net profit is nil or negative or insufficient to cover losses from the previous accounting periods; or
- if the borrower's profit before tax in the relevant accounting period has not been used to pay off the principal, the interest for the current or next interest payment period, or other related expenses due in that accounting period.

Guarantee and security

Certain of our PRC subsidiaries and associates have entered into guarantee or security agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries and associates have guaranteed or provided security including property mortgage, pledge of accounts receivable and share pledge for all liabilities of the subsidiary borrowers under these project loans. We also act as a guarantor in relation to certain of these project loans.

SCB 2018 Facility

We have entered into a facility agreement with SCB as agent and other finance parties under the SCB 2018 Facility dated June 5, 2018. The SCB 2018 Facility has a term of 48 months commencing from the date of the facility agreement.

Guarantee and security

Our SCB 2018 Facility shares the same collateral with the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the holders of the August 2018 Notes, the holders of the March 2019 Notes, the holders of the July 2019 Notes, the holders of the January 2020 Notes, the holders of the August 2020 Notes, the holders of the November 2020 Notes and the agent for and on behalf of the finance parties under the SCB 2020 Facility.

Interest

The principal amount outstanding under the SCB 2018 Facility bears interest at a floating rate calculated with reference to the Hong Kong Interbank Offered Rate or London Interbank Offered Rate.

Covenants

The SCB 2018 Facility contains customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net borrowings and interest coverage ratios.

Events of default

The SCB 2018 Facility contains certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

CS 2019 Facility

Great Bloom Global Limited (廣盛環球有限公司), one of the Company's subsidiaries and one of the Subsidiary Guarantors, has entered into a facility agreement with the Company, Credit Suisse AG, Singapore Branch ("CS") as agent and other finance parties under the CS 2019 Facility dated November 27, 2019. The CS 2019 Facility has a term of 18 months commencing from the date of the facility agreement.

Guarantee and security

Our CS 2019 Facility shares the same collateral with the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the holders of the August 2018 Notes, the holders of the March 2019 Notes, the Holders of the July 2019 Notes, the holders of the January 2020 Notes, the holders of the August 2020 Notes, the holders of the November 2020 Notes and the agent for and on behalf of the finance parties under the SCB 2020 Facility.

Covenants

The CS 2019 Facility contains customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net borrowings and interest coverage ratios.

Events of default

The CS 2019 Facility contains certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

SCB 2020 Facility

We have entered into a facility agreement with SCB as agent and other finance parties under the SCB 2020 Facility dated December 23, 2020. The SCB 2020 Facility has a term of 48 months commencing from the date of the facility agreement.

Guarantee and security

Our SCB 2020 Facility shares the same collateral with the agent for and on behalf of the finance parties under the SCB 2018 Facility, the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the holders of the August 2018 Notes, the holders of the March 2019 Notes, the holders of the July 2019 Notes, the holders of the January 2020 Notes, the holders of the August 2020 Notes and the holders of the November 2020 Notes.

Interest

The principal amount outstanding under the SCB 2020 Facility bears interest at a floating rate calculated with reference to the Hong Kong Interbank Offered Rate or London Interbank Offered Rate.

Covenants

The SCB 2020 Facility contains customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net borrowings and interest coverage ratios.

Events of default

The SCB 2020 Facility contains certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

Domestic Corporate Bonds

2015 Domestic Corporate Bonds

In December 2015, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued public domestic corporate bonds in the principal amount of RMB3,300 million (US\$474.0 million) with rights of over-allotment (the “2015 Domestic Corporate Bonds”). The 2015 Domestic Corporate Bonds consist of two types, of which the first type has a term of six years with the issuer’s option to raise the coupon rate after the end of the third year from the date of issue of the 2015 Domestic Corporate Bonds and the investors’ option to sell back the 2015 Domestic Corporate Bonds to the issuer (the “Type One of 2015 Domestic Corporate Bonds”), and the second type has a term of seven years with the issuer’s option to raise the coupon rate after the end of the fifth year from the date of issue of the 2015 Domestic Corporate Bonds and the investors’ option to sell back the 2015 Domestic Corporate Bonds to the issuer (the “Type Two of 2015 Domestic Corporate Bonds”). The total issue size for the Type One of 2015 Domestic Corporate Bonds shall be RMB2,500 million (US\$359.1 million) and its coupon rate shall be fixed at 4.94% per annum and the total issue size for the Type Two of 2015 Domestic Corporate Bonds shall be RMB800 million (US\$114.9 million) and its coupon rate shall be fixed at 6.15% per annum.

Guarantee

The 2015 Domestic Corporate Bonds are guaranteed by the Company.

Covenants

Subject to certain conditions and exceptions, the 2015 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- limiting the scale of additional indebtedness that the issuer can incur or guarantee;
- limiting the scale of investments that the issuer can make; and
- restricting the issuer from selling or granting guarantees to any third parties with its main assets.

Events of default

The 2015 Domestic Corporate Bonds contain certain customary events of default, including default in the payment of principal or of any interest on the 2015 Domestic Corporate Bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the 2015 Domestic Corporate Bonds, insolvency, and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the 2015 Domestic Corporate Bonds and compensate the relevant losses suffered by the trustee.

March 2016 Domestic Corporate Bonds

In March 2016, Guangzhou Tianjian Real Estate Development Limited (廣州市天建房地產開發有限公司) ("Guangzhou Tianjian") issued public domestic corporate bonds in the principal amount of RMB2,200 million (US\$316.0 million) (the "March 2016 Domestic Corporate Bonds"). The March 2016 Domestic Corporate Bonds consist of two types, of which the first type has a term of six years with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the March 2016 Domestic Corporate Bonds and the investors' option to sell back the March 2016 Domestic Corporate Bonds to the issuer (the "Type One of March 2016 Domestic Corporate Bonds"), and the second type has a term of ten years with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the March 2016 Domestic Corporate Bonds and the investors' option to sell back the March 2016 Domestic Corporate Bonds to the issuer (the "Type Two of March 2016 Domestic Corporate Bonds"). The total issue size for the Type One of March 2016 Domestic Corporate Bonds shall be RMB600 million (US\$86.2 million) and its coupon rate shall be fixed at 3.90% per annum and the total issue size for the Type Two of March 2016 Domestic Corporate Bonds shall be RMB1,600 million (US\$229.8 million) and its coupon rate shall be fixed at 4.80% per annum.

Guarantee

The March 2016 Domestic Corporate Bonds are guaranteed by the Company.

Covenants

Subject to certain conditions and exceptions, the March 2016 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- limiting the scale of additional indebtedness that the issuer can incur or guarantee;
- limiting the scale of investments that the issuer can make; and
- restricting the issuer from selling or granting guarantees to any third parties with its main assets.

Events of default

The March 2016 Domestic Corporate Bonds contain certain customary events of default, including default in the payment of principal or of any interest on the March 2016 Domestic Corporate Bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the March 2016 Domestic Corporate Bonds, insolvency, and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the March 2016 Domestic Corporate Bonds and compensate the relevant losses suffered by the trustee.

April 2016 Domestic Corporate Bonds

In April 2016, Guangzhou Tianjian issued non-public domestic corporate bonds in the principal amount of RMB6,500 million (US\$933.7 million) (the "April 2016 Domestic Corporate Bonds"). The April 2016 Domestic Corporate Bonds consist of two types, of which the first type has a term of seven years with the issuer's option to adjust the coupon rate after the end of the fourth year from the date of issue of the April 2016 Domestic Corporate Bonds and the investors' option to sell back the April 2016 Domestic Corporate Bonds to the issuer (the "Type One of April 2016 Domestic Corporate Bonds"), and the second type has a term of seven years with the issuer's option to adjust the coupon rate after the end of the fifth year from the date of issue of the April 2016 Domestic Corporate Bonds and the investors' option to sell back the April 2016 Domestic Corporate Bonds to the issuer (the "Type Two of April 2016 Domestic Corporate Bonds"). The total issue size for the Type One of April 2016 Domestic Corporate Bonds shall be RMB1,000 million (US\$143.6 million) and its coupon rate shall be fixed at 5.60% per annum and the total issue size for the Type Two of April 2016 Domestic Corporate Bonds shall be RMB5,500 million (US\$790.0 million) and its coupon rate shall be fixed at 5.80% per annum.

Guarantee

The April 2016 Domestic Corporate Bonds are guaranteed by the Company.

Covenants

Subject to certain conditions and exceptions, the April 2016 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- limiting the scale of additional indebtedness that the issuer can incur or guarantee;
- limiting the scale of investments that the issuer can make;
- restricting the issuer from selling or granting guarantees to any third parties with its main assets; and
- complying with certain financial covenants.

Events of default

The April 2016 Domestic Corporate Bonds contain certain customary events of default, including default in the payment of principal or of any interest on the April 2016 Domestic Corporate Bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on its ability to repay the April 2016 Domestic Corporate Bonds, insolvency, violation of the relevant financial covenants and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the April 2016 Domestic Corporate Bonds and compensate the relevant losses suffered by the trustee.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding April 2016 Domestic Corporate Bonds at a purchase price equal to 100% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

2016 Domestic Corporate Bonds

We issued domestic corporate bonds (the "2016 Domestic Corporate Bonds") in three tranches. On July 21, 2016, we issued the First Tranche of 2016 Domestic Corporate Bonds in the PRC in the aggregate principal amount of RMB2,000.0 million (US\$287.3 million). The First Tranche of 2016 Domestic Corporate Bonds has a term of five years and bears a coupon rate of 4.85% per annum. At the end of the third year after issuance, we have an option to raise the coupon rate and the investors have an option to sell back such domestic corporate bonds to us.

On July 28, 2016, we issued the Second Tranche of 2016 Domestic Corporate Bonds in the PRC in an aggregate principal amount of RMB1,300.0 million (US\$186.7 million). The Second Tranche of 2016 Domestic Corporate Bonds has a term of five years and bears a coupon rate of 4.95% per annum. We have an option to raise the coupon rate after the end of the third year from the date of issue of such domestic corporate bonds and the investors have an option to sell back the domestic corporate bonds to us.

On September 30, 2016, we issued the Third Tranche of 2016 Domestic Corporate Bonds in the PRC in the aggregate principal amount of RMB8,000.0 million (US\$1,149.1 million). The Third Tranche of 2016 Domestic Corporate Bonds consists of three types. The first type has a term of seven years with the issuer's option to adjust the coupon rate after the end of the fourth year from the date of issue of the Third Tranche of 2016 Domestic Corporate Bonds and the investors' option to sell

back to the issuer. The second type has a term of seven years with the issuer's option to adjust the coupon rate after the end of the fourth and a half year from the date of issue of the Third Tranche of 2016 Domestic Corporate Bonds and the investors' option to sell back to the issuer. The third type has a term of seven years with the issuer's option to adjust the coupon rate after the end of the fifth year from the date of issue of the Third Tranche of 2016 Domestic Corporate Bonds and the investors' option to sell back to the Issuer. The total issue size for the first type of bonds shall be RMB2,500 million (US\$359.1 million) and its coupon rate shall be fixed at 5.60% per annum. The total issue size for the second type of bonds shall be RMB2,500 million (US\$359.1 million) and its coupon rate shall be fixed at 5.70% per annum. The total issue size for the third type of bonds shall be RMB3,000 million (US\$430.9 million) and its coupon rate shall be fixed at 5.80% per annum.

Covenants

Subject to certain conditions and exceptions, the 2016 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- postponing our dividend distributions to shareholders;
- limiting the scale of additional indebtedness that we and our subsidiaries can incur or guarantee;
- limiting the scale of investments that we and our subsidiaries can make;
- restricting us and our subsidiaries from selling or granting guarantees to any third parties with our or our subsidiaries' main assets; and
- complying with certain financial covenants.

Events of default

The 2016 Domestic Corporate Bonds contains certain customary events of default, including default in the payment of principal or of any interest on the 2016 Domestic Corporate Bonds when such payments become due and payable, cross default, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the 2016 Domestic Corporate Bonds, insolvency, failure to comply with agreed use of proceeds or information disclosure obligations, violation of certain financial covenants and other events of default. In the event of default, the issuer shall repay all the principal, interest and default interest of the 2016 Domestic Corporate Bonds.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding 2016 Domestic Corporate Bonds at a purchase price equal to 100% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

The different tranches of our 2016 Domestic Corporate Bonds are listed on the Shanghai Stock Exchange.

September 2017 Domestic Corporate Bonds

In September, 2017, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued two types of domestic corporate bonds (the "September 2017 Domestic Corporate Bonds"). The Type One September 2017 Domestic Corporate Bonds have a term of five years with the issuer's

option to adjust the coupon rate after the end of the third year from the date of issuance of the September 2017 Domestic Corporate Bonds and the investors' option to sell back to the issuer. The Type Two September 2017 Domestic Corporate Bonds have a term of three years with the issuer's option to adjust the coupon rate after the end of the second year from the date of issuance of the September 2017 Domestic Corporate Bonds and the investors' option to sell back to the issuer. The Type One September 2017 Domestic Corporate Bonds have an aggregate principal amount of RMB1.0 billion (US\$0.1 billion) and a fixed coupon rate of 7.85% per annum. The Type Two September 2017 Domestic Corporate Bonds have an aggregate principal amount of RMB2.0 billion (US\$0.3 billion) and a fixed coupon rate of 7.50% per annum.

Guarantee

The September 2017 Domestic Corporate Bonds are guaranteed by the Company.

Covenants

Subject to certain conditions and exceptions, the September 2017 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- limiting the scale of additional indebtedness that the issuer can incur or guarantee;
- limiting the scale of investments that the issuer can make; and
- restricting the issuer from selling or granting guarantees to any third parties with its main assets.

Events of default

The September 2017 Domestic Corporate Bonds contain certain customary events of default, including default in the payment of principal or of any interest on the September 2017 Domestic Corporate Bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the September 2017 Domestic Corporate Bonds, insolvency, and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the September 2017 Domestic Corporate Bonds and compensate the relevant losses suffered by the trustee.

October 2017 Domestic Corporate Bonds

In October 2017, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued two types of domestic corporate bonds (the "October 2017 Domestic Corporate Bonds"). The Type One October 2017 Domestic Corporate Bonds have a term of five years with the issuer's option to adjust the coupon rate after the end of the third year from the date of issuance of the October 2017 Domestic Corporate Bonds and the investors' option to sell back to the issuer. The Type Two October 2017 Domestic Corporate Bonds have a term of three years with the issuer's option to adjust the coupon rate after the end of the second year from the date of issuance of the October 2017 Domestic Corporate Bonds and the investors' option to sell back to the issuer. The Type One October 2017 Domestic Corporate Bonds have an aggregate principal amount of RMB840.0 million (US\$120.7 million) and a fixed coupon rate of 8.00% per annum. The Type Two October 2017 Domestic Corporate Bonds have an aggregate principal amount of RMB2,160.0 million (US\$310.3 million) and a fixed coupon rate of 7.50% per annum.

Guarantee

The October 2017 Domestic Corporate Bonds are guaranteed by the Company.

Covenants

Subject to certain conditions and exceptions, the October 2017 Domestic Corporate Bonds contain certain covenants, including but not limited to:

- limiting the scale of additional indebtedness that the issuer can incur or guarantee;
- limiting the scale of investments that the issuer can make; and
- restricting the issuer from selling or granting guarantees to any third parties with its main assets.

Events of default

The October 2017 Domestic Corporate Bonds contain certain customary events of default, including default in the payment of principal or of any interest on the October 2017 Domestic Corporate Bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the October 2017 Domestic Corporate Bonds, insolvency, and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the October 2017 Domestic Corporate Bonds and compensate the relevant losses suffered by the trustee.

2020 Domestic Corporate Bonds

In 2020, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued domestic corporate bonds (the "2020 Domestic Corporate Bonds"). On March 16, 2020, Guangzhou Hejing issued the domestic corporate bonds in the PRC in the aggregate principal amount of RMB1,000 million (US\$143.6 million). The first tranche of domestic corporate bonds has a term of 2 + 1 years and bears a coupon rate of 5.75% per annum. At the end of the second year after issuance, we have an option to raise the coupon rate and the investors have an option to sell back to the issuer.

In August 2020, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued domestic corporate bonds in the PRC in the aggregate principal amount of RMB1,800 million (US\$258.6 million) with a term of three years and a coupon rate of 5.6% per annum.

In September 2020, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued domestic corporate bonds in the PRC in the aggregate principal amount of RMB1,000 million (US\$143.6 million) with a term of five years and a coupon rate of 6.0% per annum.

In November 2020, Guangzhou Hejing, a wholly-owned subsidiary of the Company, issued domestic corporate bonds in the PRC in the aggregate principal amount of RMB700 million (US\$99.1 million) with a term of five years and a coupon rate of 6.19% per annum.

Guarantee

The domestic corporate bonds are guaranteed by the Company.

Events of default

The domestic corporate bonds contain certain customary events of default, including default in the payment of principal or of any interest on the domestic corporate bonds when such payments become due and payable, the issuer's action which leads to substantial adverse effects on the issuer's ability to repay the domestic corporate bonds, insolvency, and other events of default. In the event of default, the issuer shall repay all the principal, interest, default interest and penalty of the domestic corporate bonds and compensate the relevant losses suffered by the trustee.

January 2017 Notes

On January 11, 2017, we entered into the January 2017 Indenture pursuant to which we issued an aggregate principal amount of US\$250,000,000 6.00% senior notes due 2022. The January 2017 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the January 2017 Notes remains outstanding.

Guarantee

The obligations pursuant to the January 2017 Notes are guaranteed by our existing subsidiaries (the "January 2017 Subsidiary Guarantors") other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the January 2017 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a January 2017 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a "January 2017 JV Subsidiary Guarantee"). We refer to the subsidiaries providing a January 2017 JV Subsidiary Guarantee as January 2017 JV Subsidiary Guarantors. Each of the January 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the January 2017 Notes.

Collateral

In order to secure the obligations under the January 2017 Notes, the Company agreed, for the benefit of the holders of the January 2017 Notes, to pledge, or cause the January 2017 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each January 2017 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the "January 2017 Collateral") in order to secure the obligations of the Company under the January 2017 Notes and each initial January 2017 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The January 2017 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the January 2017 Collateral if all indebtedness secured by the January 2017 Collateral (other than the indebtedness represented by the January 2017 Notes and the January 2017 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any January 2017 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any January 2017 Subsidiary Guarantor or any January 2017 JV Subsidiary Guarantor to secure the January 2017 Notes or the relevant January 2017 Subsidiary Guarantees.

Interest

The January 2017 Notes bear an interest rate of 6.00% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the January 2017 Indenture and each of the related January 2017 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The January 2017 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the January 2017 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the January 2017 Indenture or the holders of at least 25% of the outstanding January 2017 Notes may declare the principal of the January 2017 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding January 2017 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding January 2017 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the January 2017 Notes is January 11, 2022. At any time and from time to time prior to January 11, 2020, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the January 2017 Notes at a redemption price equal to 106.0% of the principal amount of the January 2017 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 January 2017 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the January 2017 Notes originally issued remains outstanding, we may at our option redeem the January 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the January 2017 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Additionally, if we become or a January 2017 Subsidiary Guarantor under the January 2017 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the January 2017 Notes at a redemption price equal to 100% of the principal amount of the January 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On January 11, 2017, Citicorp International Limited, as trustee under the January 2017 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a pari passu basis with other holders of permitted pari passu secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

March 2017 Notes

On March 15, 2017, we entered into an indenture (the "March 2017 Indenture") pursuant to which we issued a principal amount of US\$400,000,000 6.00% senior notes due 2022. On March 29, 2017 and December 7, 2017, we issued additional March 2017 Notes in the principal amount of US\$100,000,000 and US\$150,000,000, respectively. The March 2017 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the March 2017 Notes remains outstanding.

Guarantee

The obligations pursuant to the March 2017 Notes are guaranteed by our existing subsidiaries (the "March 2017 Subsidiary Guarantors") other than those organized under the laws of the PRC and certain other non-PRC subsidiaries. We refer to these guarantees as the March 2017 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a March 2017 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a "March 2017 JV Subsidiary Guarantee"). We refer to the subsidiaries providing a

March 2017 JV Subsidiary Guarantee as March 2017 JV Subsidiary Guarantors. Each of the March 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the March 2017 Notes.

Collateral

In order to secure the obligations under the March 2017 Notes, the Company agreed, for the benefit of the holders of the March 2017 Notes, to pledge, or cause the March 2017 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each March 2017 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “March 2017 Collateral”) in order to secure the obligations of the Company under the March 2017 Notes and each initial March 2017 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The March 2017 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Interest

The March 2017 Notes bear an interest rate of 6.00% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the March 2017 Indenture and each of the related March 2017 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the Restricted Subsidiaries;
- guaranteeing indebtedness of the Restricted Subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The March 2017 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the March 2017 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the March 2017 Indenture or the holders of at least 25% of the outstanding March 2017 Notes may declare the principal of the March 2017 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding March 2017 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding March 2017 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity date of the March 2017 Notes is September 15, 2022. At any time and from time to time prior to March 15, 2020, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the March 2017 Notes at a redemption price equal to 106.00% of the principal amount of the March 2017 Notes, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the March 2017 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. Additionally, if we become or a March 2017 Subsidiary Guarantor under the March 2017 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the March 2017 Notes at a redemption price equal to 100% of the principal amount of the March 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On March 15, 2017, Citicorp International Limited, as trustee under the March 2017 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a pari passu basis with the lenders under certain of our offshore facilities and any holders of permitted pari passu secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

September 2017 Notes

On September 21, 2017, we entered into the September 2017 Indenture pursuant to which we issued an aggregate principal amount of US\$250,000,000 5.20% senior notes due 2022. The September 2017 notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the September 2017 Notes remains outstanding.

Guarantee

The obligations pursuant to the September 2017 Notes are guaranteed by our existing subsidiaries (the “September 2017 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the September 2017 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a September Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “September 2017 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a September 2017 JV Subsidiary Guarantee as September 2017 JV Subsidiary Guarantors. Each of the September 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the September 2017 Notes.

Collateral

In order to secure the obligations under the September 2017 Notes, the Company agreed, for the benefit of the holders of the September 2017 Notes, to pledge, or cause the September 2017 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each September 2017 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “September 2017 Collateral”) in order to secure the obligations of the Company under the September 2017 Notes and each initial September 2017 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The September 2017 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the September 2017 Collateral if all indebtedness secured by the September 2017 Collateral (other than the indebtedness represented by the September 2017 Notes and the September 2017 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any September 2017 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any September 2017 Subsidiary Guarantor or any September 2017 JV Subsidiary Guarantor to secure the September 2017 Notes or the relevant September 2017 Subsidiary Guarantees.

Interest

The September 2017 Notes bear an interest of 5.20% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the September 2017 Indenture and each of the related September 2017 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guarantee additional indebtedness and issue disqualified or preferred stock;
- declaring dividends on its capital stock or purchase or redeem capital stock;
- making investments or other specified restricted payments;
- issuing or sell capital stock of certain of its subsidiaries;

- guaranteeing indebtedness of certain of its subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The September 2017 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the September 2017 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the September 2017 Indenture or the holders of at least 25% of the outstanding September 2017 Notes may declare the principal of the September 2017 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding September 2017 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding September 2017 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the September 2017 Notes is September 21, 2022. At any time and from time to time prior to September 21, 2020, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the September 2017 Notes at a redemption price equal to 105.20% of the principal amount of the September 2017 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 September 2017 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the September 2017 Notes originally issued remains outstanding, we may at our option redeem the September 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the September 2017 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Additionally, if we become or a September 2017 Subsidiary Guarantor under the September 2017 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law,

we may redeem the September 2017 Notes at a redemption price equal to 100% of the principal amount of the September 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On September 21, 2017, Citicorp International Limited, as trustee under the September 2017 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a pari passu basis with any holders of permitted pari passu secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

November 2017 Notes

On November 10, 2017, we entered into the November 2017 Indenture pursuant to which we issued an aggregate principal amount of US\$400,000,000 5.875% senior notes due 2024. On July 3, 2019, we further issued additional US\$225,000,000 5.875% senior notes due 2024, to be consolidated and form a single class with the US\$400,000,000 5.875% senior notes due 2024. The November 2017 notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the November 2017 Notes remains outstanding.

Guarantee

The obligations pursuant to the November 2017 Notes are guaranteed by our existing subsidiaries (the “November 2017 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the November 2017 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a November 2017 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “November 2017 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a November 2017 JV Subsidiary Guarantee as November 2017 JV Subsidiary Guarantors. Each of the November 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the November 2017 Notes.

Collateral

In order to secure the obligations under the November 2017 Notes, the Company agreed, for the benefit of the holders of the November 2017 Notes, to pledge, or cause the November 2017 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each November 2017 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “November 2017 Collateral”) in order to secure the obligations of the Company under the November 2017 Notes and each initial November 2017 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The November 2017 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the November 2017 Collateral if all indebtedness secured by the November 2017 Collateral (other than the indebtedness represented by the November 2017 Notes and the November 2017 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any November 2017

Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any November 2017 Subsidiary Guarantor or any November 2017 JV Subsidiary Guarantor to secure the November 2017 Notes or the relevant November 2017 Subsidiary Guarantees.

Interest

The November 2017 Notes bear an interest of 5.875% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the November 2017 Indenture and each of the related November 2017 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guarantee additional indebtedness and issue disqualified or preferred stock;
- declaring dividends on its capital stock or purchase or redeem capital stock;
- making investments or other specified restricted payments;
- issuing or sell capital stock of certain of its subsidiaries;
- guaranteeing indebtedness of certain of its subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The November 2017 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the November 2017 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the November 2017 Indenture or the holders of at least 25% of the outstanding November 2017 Notes may declare the principal of the November 2017 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding November 2017 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding November 2017 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the November 2017 Notes is November 10, 2024. At any time and from time to time prior to November 10, 2021, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the November 2017 Notes at a redemption price equal to 105.875% of the principal amount of the November 2017 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 November 2017 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the November 2017 Notes originally issued remains outstanding, we may at our option redeem the November 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the November 2017 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Additionally, if we become or a November 2017 Subsidiary Guarantor under the November 2017 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the November 2017 Notes at a redemption price equal to 100% of the principal amount of the November 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On November 10, 2017, Citicorp International Limited, as trustee under the November 2017 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a pari passu basis with other holders of permitted pari passu secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

August 2018 Notes

On August 9, 2018, we entered into the August 2018 Indenture pursuant to which we issued an aggregate principal amount of US\$350,000,000 7.875% senior notes due 2021. The August 2018 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the August 2018 Notes remains outstanding.

Guarantee

The obligations pursuant to the August 2018 Notes are guaranteed by our existing subsidiaries (the "August 2018 Subsidiary Guarantors") other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the August 2018 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, an August 2018 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (an "August 2018 JV Subsidiary Guarantee"). We refer to the subsidiaries providing an August 2018 JV Subsidiary Guarantee as

August 2018 JV Subsidiary Guarantors. Each of the August 2018 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the August 2018 Notes.

Collateral

In order to secure the obligations under the August 2018 Notes, the Company agreed, for the benefit of the holders of the August 2018 Notes, to pledge, or cause the August 2018 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each August 2018 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “August 2018 Collateral”) in order to secure the obligations of the Company under the August 2018 Notes and each initial August 2018 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The August 2018 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the August 2018 Collateral if all indebtedness secured by the August 2018 Collateral (other than the indebtedness represented by the August 2018 Notes and the August 2018 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any August 2018 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any August 2018 Subsidiary Guarantor or any August 2018 JV Subsidiary Guarantor to secure the August 2018 Notes or the relevant August 2018 Subsidiary Guarantees.

Interest

The August 2018 Notes bear an interest of 7.875% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the August 2018 Indenture and each of the related August 2018 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guarantee additional indebtedness and issue disqualified or preferred stock;
- declaring dividends on its capital stock or purchase or redeem capital stock;
- making investments or other specified restricted payments;
- issuing or sell capital stock of certain of its subsidiaries;
- guaranteeing indebtedness of certain of its subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict certain of its subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;

- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The August 2018 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the August 2018 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the August 2018 Indenture or the holders of at least 25% of the outstanding August 2018 Notes may declare the principal of the August 2018 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding August 2018 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding August 2018 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the August 2018 Notes is August 9, 2021. At any time and from time to time prior to August 9, 2020, we may, with the proceeds from sales of certain types of the Company's shares, redeem up to 35% of the aggregate principal amount of the August 2018 Notes at a redemption price equal to 107.875% of the principal amount of the August 2018 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the August 2018 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the August 2018 Notes originally issued remains outstanding, we may at our option redeem the August 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the August 2018 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Additionally, if we become or an August 2018 Subsidiary Guarantor under the August 2018 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the August 2018 Notes at a redemption price equal to 100% of the principal amount of the August 2018 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On August 9, 2018, Citicorp International Limited, as trustee under the August 2018 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a pari passu basis with the holders of any holders of permitted pari passu secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

March 2019 Notes

On March 1, 2019, we entered into the March 2019 Indenture pursuant to which we issued an aggregate principal amount of US\$350,000,000 7.875% senior notes due 2023. On March 22, 2019, we further issued additional US\$350,000,000 7.875% senior notes due 2023, to be consolidated and form a single class with the US\$350,000,000 7.875% senior notes due 2023. The March 2019 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the March 2019 Notes remains outstanding.

Guarantee

The obligations pursuant to the March 2019 Notes are guaranteed by our existing subsidiaries (the “March 2019 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the March 2019 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a March 2019 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “March 2019 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a March 2019 JV Subsidiary Guarantee as March 2019 JV Subsidiary Guarantors. Each of the March 2019 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the March 2019 Notes.

Collateral

In order to secure the obligations under the March 2019 Notes, the Company agreed, for the benefit of the holders of the March 2019 Notes, to pledge, or cause the March 2019 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each March 2019 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “March 2019 Collateral”) in order to secure the obligations of the Company under the March 2019 Notes and each initial March 2019 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The March 2019 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the March 2019 Collateral if all indebtedness secured by the March 2019 Collateral (other than the indebtedness represented by the March 2019 Notes and the March 2019 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any March 2019 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any March 2019 Subsidiary Guarantor or any March 2019 JV Subsidiary Guarantor to secure the March 2019 Notes or the relevant March 2019 Subsidiary Guarantees.

Interest

The March 2019 Notes bear an interest of 7.875% per annum, payable semi-annually in arrear.

Covenants

Subject to certain conditions and exceptions, the March 2019 Indenture and each of the related March 2019 Subsidiary Guarantees contain certain covenants, restricting us and each of the related

restricted subsidiaries from, among other things:

- incurring or guarantee additional indebtedness and issue disqualified or preferred stock;
- declaring dividends on its capital stock or purchase or redeem capital stock;
- making investments or other specified restricted payments;
- issuing or sell capital stock of certain of its subsidiaries;
- guaranteeing indebtedness of certain of its subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict certain of its subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The March 2019 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the March 2019 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the March 2019 Indenture or the holders of at least 25% of the outstanding March 2019 Notes may declare the principal of the March 2019 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding March 2019 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding March 2019 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity of the March 2019 Notes is September 1, 2023.

At any time and from time to time on or after September 1, 2021, We may at our option redeem the March 2019 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on September 1 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2021	102%
2022	101%

At any time and from time to time prior to September 1, 2021, we may, with the proceeds from sales of certain types of the Company’s shares, redeem up to 35% of the aggregate principal amount of the March 2019 Notes at a redemption price equal to 107.875% of the principal amount of the March 2019 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 March 2019 Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the March 2019 Notes originally issued remains outstanding, we may at our option redeem the March 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the March 2019 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. Additionally, if we become or a March 2019 Subsidiary Guarantor under the March 2019 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, we may redeem the March 2019 Notes at a redemption price equal to 100% of the principal amount of the March 2019 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Intercreditor Agreement

On March 1, 2019, Citicorp International Limited, as trustee under the March 2019 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a *pari passu* basis with the holders of the January 2014 Notes, the holders of the August 2014 Notes, the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the holders of the August 2018 Notes, the holders of the November 2018 Notes, the holders of the March 2019 Notes and any holders of permitted *pari passu* secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

July 2019 Notes

On July 29, 2019, we entered into the July 2019 Indenture pursuant to which we issued an aggregate principal amount of US\$300,000,000 7.40% senior notes due 2024. The July 2019 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the July 2019 Notes remains outstanding.

Guarantee

The obligations pursuant to the July 2019 Notes are guaranteed by our existing subsidiaries (the “July 2019 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the July 2019 Subsidiary Guarantees. Under certain circumstances and subject to

certain conditions, a July 2019 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “July 2019 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a July 2019 JV Subsidiary Guarantee as July 2019 JV Subsidiary Guarantors. Each of the July 2019 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the July 2019 Notes.

Collateral

In order to secure the obligations under the July 2019 Notes, we agreed, for the benefit of the holders of the July 2019 Notes, to pledge, or cause the July 2019 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each July 2019 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “July 2019 Collateral”) in order to secure the our obligations under the July 2019 Notes and each initial July 2019 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The July 2019 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the July 2019 Collateral will be shared on a *pari passu* basis by the holders of the July 2019 Notes and the holders of other secured indebtedness, including the lenders under certain of our offshore facilities, the holders of the January 2017 Notes, the March 2017 Notes, the September 2017 Notes, the November 2017 Notes, the November 2018 Notes, the March 2019 Notes and the July 2019 Notes, and any other creditors with respect to permitted *pari passu* secured indebtedness.

Notwithstanding anything in the foregoing, we shall be entitled to release the security over the July 2019 Collateral if all indebtedness secured by the July 2019 Collateral (other than the indebtedness represented by the August July 2019 and the July 2019 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, we shall not be obligated to pledge, or cause any July 2019 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any July 2019 Subsidiary Guarantor or any July 2019 JV Subsidiary Guarantor to secure the July 2019 Notes or the relevant July 2019 Subsidiary Guarantees.

Interest

The July 2019 Notes bear an interest of 7.40% per annum, payable semi-annually in arrear on March 5 and September 5 of each year, commencing September 5, 2019.

Covenants

Subject to certain conditions and exceptions, the July 2019 Indenture and each of the related July 2019 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of 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 shareholders or affiliates; and
- effect a consolidation or merger.

Events of Default

The July 2019 Indenture contains certain customary events of default, including default in the payment of principal of (or premium, if any, on) on the July 2019 Notes when the same becomes due and payable at maturity, default in the payment of interest on the July 2019 Notes when the same becomes due and payable, and such default continues for a period of 30 consecutive days; and other events of default. If an event of default occurs and is continuing, the trustee under the July 2019 Indenture or the holders of 25% or more in aggregate principal amount of the July 2019 Notes declare the principal of, premium, if any, and accrued and unpaid interest on the July 2019 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. Upon the occurrence of certain specified events of default, the principal of, premium, if any, and accrued and unpaid interest on the July 2019 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.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding July 2019 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date.

Maturity and Redemption

The maturity of the July 2019 Notes is March 5, 2024. At any time and from time to time on or after March 5, 2022, we may at our option redeem the July 2019 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on March 5 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2022	103.70%
2023	101.85%

At any time prior to March 5, 2022, we may at our option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2019 Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium. At any time and from time to time prior to March 5, 2022, we may redeem up to 35% of the aggregate principal amount of the July 2019 Notes with the Net Cash Proceeds of one or more of our Common Stock in an Equity Offering at a redemption price of 107.40% of the principal amount of the July 2019 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 July 2019 Notes originally issued on the July 29, 2019 remains outstanding after each

such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. At any time on or after the date when no more than 10% of the aggregate principal amount of the July 2019 Notes originally issued on the July 29, 2019 remains outstanding, we may at our option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2019 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Intercreditor Agreement

On July 29, 2019, Citicorp International Limited, as trustee under the July 2019 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a *pari passu* basis with any holders of permitted *pari passu* secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

January 2020 Notes

On January 13, 2020, we entered into the January 2020 Indenture pursuant to which we issued an aggregate principal amount of US\$300,000,000 7.40% senior notes due 2027. The January 2020 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the January 2020 Notes remains outstanding.

Guarantee

The obligations pursuant to the January 2020 Notes are guaranteed by our existing subsidiaries (the “January 2020 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the January 2020 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a January 2020 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “January 2020 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a January 2020 JV Subsidiary Guarantee as January 2020 JV Subsidiary Guarantors. Each of the January 2020 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the January 2020 Notes.

Collateral

In order to secure the obligations under the January 2020 Notes, the Company agreed, for the benefit of the holders of the January 2020 Notes, to pledge, or cause the January 2020 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each January 2020 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “January 2020 Collateral”) in order to secure the obligations of the Company under the January 2020 Notes and each initial January 2020 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The January 2020 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the January 2020 Collateral will be shared on a *pari passu* basis by the holders of the January 2020 Notes and the holders of other secured indebtedness, including the lenders under certain of our offshore facilities, the holders of the January 2017 Notes, the March 2017 Notes, the September 2017 Notes, the November 2017 Notes, the November 2018 Notes, the March 2019 Notes, the July 2019 Notes and the January 2020 Notes and any other creditors with respect to permitted *pari passu* secured indebtedness.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the January 2020 Collateral if all indebtedness secured by the January 2020 Collateral (other than the indebtedness represented by the January 2020 Notes and the January 2020 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any January 2020 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any January 2020 Subsidiary Guarantor or any January 2020 JV Subsidiary Guarantor to secure the January 2020 Notes or the relevant January 2020 Subsidiary Guarantees.

Interest

The January 2020 Notes bear an interest of 7.40% per annum, payable semiannually in arrears.

Covenants

Subject to certain conditions and exceptions, the January 2020 Indenture and each of the related January 2020 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

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

Events of Default

The January 2020 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the January 2020 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the January 2020 Indenture or the holders of at least 25% of the outstanding January 2020 Notes may declare the principal of the January 2020 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the

principal of, premium (if any) and accrued and unpaid interest on the outstanding January 2020 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding January 2020 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity date of the January 2020 Notes is January 13, 2027.

At any time and from time to time on or after January 13, 2024, we may at its option redeem the January 2020 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on January 13 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2024	103.0%
2025	101.0%
2026	100.0%

At any time and from time to time prior to January 13, 2024, we may redeem up to 35% of the aggregate principal amount of the January 2020 Notes with the Net Cash Proceeds of one or more sales of our Common Stock in an Equity Offering at a redemption price of 107.4% of the principal amount of the January 2020 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 January 2020 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the January 2020 Notes remains outstanding, we may at its option redeem the January 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the January 2020 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Intercreditor Agreement

On August 10, 2020, Citicorp International Limited, as trustee under the January 2020 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a *pari passu* basis with the holders of the January 2017 Notes, the March 2017 Notes, the September 2017 Notes, the November 2017 Notes, the November 2018 Notes, the March 2019 Notes, the July 2019 Notes and the January 2020 Notes, and any holders of permitted *pari passu* secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

August 2020 Notes

On August 10, 2020, we entered into the August 2020 Indenture pursuant to which we issued an aggregate principal amount of US\$200,000,000 5.95% senior notes due 2025. The August 2020 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the August 2020 Notes remains outstanding.

Guarantee

The obligations pursuant to the August 2020 Notes are guaranteed by our existing subsidiaries (the “August 2020 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the August 2020 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a August 2020 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “August 2020 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a August 2020 JV Subsidiary Guarantee as August 2020 JV Subsidiary Guarantors. Each of the August 2020 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the August 2020 Notes.

Collateral

In order to secure the obligations under the August 2020 Notes, the Company agreed, for the benefit of the holders of the August 2020 Notes, to pledge, or cause the August 2020 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each August 2020 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “August 2020 Collateral”) in order to secure the obligations of the Company under the August 2020 Notes and each initial August 2020 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The August 2020 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the August 2020 Collateral if all indebtedness secured by the August 2020 Collateral (other than the indebtedness represented by the August 2020 Notes and the August 2020 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any August 2020 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any August 2020 Subsidiary Guarantor or any August 2020 JV Subsidiary Guarantor to secure the August 2020 Notes or the relevant August 2020 Subsidiary Guarantees.

Interest

The August 2020 Notes bear an interest of 5.95% per annum, payable semiannually in arrears.

Covenants

Subject to certain conditions and exceptions, the August 2020 Indenture and each of the related August 2020 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

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

Events of Default

The August 2020 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the August 2020 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the August 2020 Indenture or the holders of at least 25% of the outstanding August 2020 Notes may declare the principal of the August 2020 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding August 2020 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding August 2020 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity date of the August 2020 Notes is August 10, 2025.

At any time and from time to time on or after August 10, 2023, we may at its option redeem the August 2020 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on August 10 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2023	102.975%
2024	101.4875%

At any time and from time to time prior to August 10, 2023, we may redeem up to 35% of the aggregate principal amount of the August 2020 Notes with the Net Cash Proceeds of one or more sales of our Common Stock in an Equity Offering at a redemption price of 105.95% of the principal amount of the August 2020 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 August 2020 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the August 2020 Notes remains outstanding, we may at its option redeem the August 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the August 2020 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Intercreditor Agreement

On August 10, 2020, Citicorp International Limited, as trustee under the August 2020 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a *pari passu* basis with any holders of permitted *pari passu* secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

November 2020 Notes

On November 13, 2020, we entered into the November 2020 Indenture pursuant to which we issued an aggregate principal amount of US\$400,000,000 6.3% senior notes due 2026. The November 2020 Notes are listed on the Hong Kong Stock Exchange. As of the date of this offering memorandum, the entire principal amount of the November 2020 Notes remains outstanding.

Guarantee

The obligations pursuant to the November 2020 Notes are guaranteed by our existing subsidiaries (the “November 2020 Subsidiary Guarantors”) other than those organized under the laws of the PRC, exempted subsidiaries, listed subsidiaries and certain other non-PRC subsidiaries. We refer to these guarantees as the November 2020 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a November 2020 Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited-recourse guarantee (a “November 2020 JV Subsidiary Guarantee”). We refer to the subsidiaries providing a November 2020 JV Subsidiary Guarantee as November 2020 JV Subsidiary Guarantors. Each of the November 2020 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium and interest on, and all other amounts payable under, the November 2020 Notes.

Collateral

In order to secure the obligations under the November 2020 Notes, the Company agreed, for the benefit of the holders of the November 2020 Notes, to pledge, or cause the November 2020 Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each November 2020 Subsidiary Guarantor, other than Market Network Limited (庫國有限公司) (collectively, the “November 2020 Collateral”) in order to secure the obligations of the Company under the November 2020 Notes and each initial November 2020 Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The November 2020 Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the November 2020 Collateral if all indebtedness secured by the November 2020 Collateral (other than the indebtedness represented by the November 2020 Notes and the November 2020 Subsidiary Guarantees) has been repaid. After such release, subject to the covenant on limitation on liens, the Company shall not be obligated to pledge, or cause any November 2020 Subsidiary Guarantor Pledgor to pledge, as the case may be, the capital stock of any November 2020 Subsidiary Guarantor or any November 2020 JV Subsidiary Guarantor to secure the November 2020 Notes or the relevant November 2020 Subsidiary Guarantees.

Interest

The November 2020 Notes bear an interest of 6.3% per annum, payable semiannually in arrears.

Covenants

Subject to certain conditions and exceptions, the November 2020 Indenture and each of the related November 2020 Subsidiary Guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

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

Events of Default

The November 2020 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the November 2020 Notes when such payments become due and payable, default in payment of interest which continues for 30 consecutive days, and other events of default. If an event of default occurs and is continuing, the trustee under the November 2020 Indenture or the holders of at least 25% of the outstanding November 2020 Notes may declare the principal of the November 2020 Notes plus a premium (if any) and any accrued and unpaid interest to be immediately due and payable. Upon the occurrence of certain specified events of default, the principal of, premium (if any) and accrued and unpaid interest on the outstanding November 2020 Notes will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding November 2020 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

Maturity and Redemption

The maturity date of the November 2020 Notes is February 13, 2026.

At any time and from time to time on or after February 13, 2024, we may at its option redeem the November 2020 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on February 13 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2024	103.15%
2025	101.575%

At any time and from time to time prior to February 13, 2024, we may redeem up to 35% of the aggregate principal amount of the November 2020 Notes with the Net Cash Proceeds of one or more sales of our Common Stock in an Equity Offering at a redemption price of 106.3% of the principal amount of the November 2020 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 November 2020 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. In addition, at any time on or after the date when no more than 10% of the aggregate principal amount of the November 2020 Notes remains outstanding, we may at its option redeem the November 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the November 2020 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Intercreditor Agreement

On November 13, 2020, Citicorp International Limited, as trustee under the November 2020 Notes, executed a supplement to the intercreditor agreement dated August 18, 2010 to become a secured party under the intercreditor agreement and to share the collateral thereunder on a *pari passu* basis with any holders of permitted *pari passu* secured indebtedness or their agent or trustee who become parties to the intercreditor agreement.

Other Obligations

We have provided certain guarantees in connection with borrowing and other arrangements of certain of our joint ventures, as described further below. Even though such contingent liabilities are not considered indebtedness of our Group in our consolidated financial statements, they are nevertheless treated as Indebtedness of our Company under the Indenture and the indentures of our various senior notes.

Tianjin JV Co. Guarantees

We are developing the Jinnan New Town in Tianjin in a joint venture with Agile Property Holdings Limited, Guangzhou R&F and Shimao Property Holdings Limited through Tianjin JV Co., in which we hold a 25% interest through our indirect wholly-owned subsidiary Beijing Hejing. On November 23, 2016, Tianjin JV Co., as borrower, entered into an entrusted loan agreement for non-revolving loan facilities of up to RMB4,500 million (US\$646.4 million) with Guodu Securities, as lender, and Bohai Bank, as agent. In connection with the entrusted loan, we provided a guarantee in favor of Bohai Bank for 25% of the repayment obligations of Tianjin JV Co. On March 28, 2017, Tianjin JV Co., as borrower, entered into a fixed assets loan agreement with Bohai Bank, for a loan with an aggregate principal amount up to RMB3,000 million (US\$430.9 million). We provided a guarantee in favor of Bohai Bank for 25% of the repayment obligations of Tianjin JV Co. under this loan. See “Business—Property Development—Joint Venture Operations—Tianjin Joint Venture.”

Foshan Ronghong Guarantee

We are developing the Fuxi Project in Foshan in a joint venture with Shenzhen Chuangrun and Foshan Huitaichang through Foshan Ronghong in which we hold a 33.33% interest through our indirect wholly-owned subsidiary Guangzhou Hongyou. On December 17, 2018, Foshan Ronghong, as borrower, entered into a loan agreement for an aggregate principal amount of up to RMB800 million (US\$114.9 million) with Lujiazui International Trust Co., Ltd., as lender. In connection with the loan, we provided a guarantee in favor of Lujiazui International Trust Co., Ltd. for the repayment obligations of Foshan Ronghong. See “Business-Property Development-Joint Venture Operations-Fuxi Project Agreement.”

Unicorn JV Co. Guarantee

We are developing a parcel of land at Ap Lei Chau, Hong Kong through Unicorn JV Co. with Logan, in which each of Logan and us owns a 50% equity interest. Pursuant to the guarantee deed we entered on February 6, 2018 that is in support of the facility agreement entered by Unicorn Bay on the same date, we provided a guarantee in favor of the banks for their loan to Unicorn Bay in the principal amount of HK\$10,575 million, for 50% of the repayment obligation of Unicorn Bay, which will use the loan to support and finance project development. Our guarantee contains certain covenants that restrict us and our subsidiaries from, among other things, creating or permitting to subsist any security over any of its assets, subject to certain conditions and exceptions. We also agreed to maintain certain financial ratios under the guarantee. See “Business—Property Development—Joint Venture Operations—Unicorn Joint Venture.”

Kowloon JV Co. Guarantee

We are developing a parcel of land at Kai Tak, Kowloon, Hong Kong with the Kowloon JV Partner through Kowloon JV Co., in which each of the Kowloon JV Partner and us owns a 50% equity interest. Pursuant to the guarantee deed we entered on June 5, 2018 that is in support of the facility agreement entered by Fancy Excellent on the same date, we provided a guarantee in favor of the bank for its loan to Fancy Excellent in the principal amount of HK\$5,092 million, for 50% of the repayment obligations of Fancy Excellent, which will use the loan to finance the balance of the relevant land premium and the construction costs. Our guarantee contains certain covenants that restrict us and our subsidiaries from, among other things, creating or permitting to subsist any security over any of its assets, subject to certain conditions and exceptions. We also agreed to maintain certain financial ratios under the guarantee. See “Business—Property Development—Joint Venture Operations—Kowloon Project Agreement.”

Corporate Guarantee

On June 28, 2017, we entered into a corporate guarantee in favor of Agricultural Bank of China, Guangzhou Dongcheng Branch (中國農業銀行廣州東城支行) for the repayment obligations of Guangzhou Tianjian Real Estate Development Co., Ltd. (廣州市天建房地產開發有限公司) under a loan with an aggregate principal amount of up to RMB2,800 million (US\$402.2 million).

Covenants

Our guarantees contain customary covenants and restrictions, including, among other things, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth and consolidated net borrowings.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to KWG Group Holdings Limited (合景泰富集團控股有限公司) and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and China Construction Bank (Asia) Corporation Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, Security Documents and the Intercreditor Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Intercreditor Agreement. It does not restate those agreements in their entirety. Whenever reference is made herein to particular sections or defined terms of the Indenture not otherwise defined herein, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 20/F, CCB Tower, 3 Connaught Road Central, 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 other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor (except for the Collateral); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under the caption “—Security” and will:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) for as long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding; 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 Company will initially issue US\$378,000,000 in aggregate principal amount of the Notes, which will mature on August 14, 2026, 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 6% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on February 14 and August 14 of each year (each, an “Interest Payment Date”), commencing August 14, 2021, except that the first payment of interest, to be made on August 14, 2021, will be in respect of the period from and including May 14, 2021 to but excluding August 14, 2021. Interest on the Notes will be paid to Holders of record at the close of business on January 30 or July 30 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 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” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due.

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) and the Notes may be presented for registration of transfer or exchange at such office or agency; provided that, if the Notes are in certificated form and the Company acts as its own paying agent, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register for Holders of Certificated Notes who have not provided a specified account for receipt of funds or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Happy Clear Consultants Limited (悅明顧問有限公司), Hugeluck Investments Limited, Boom Faith International Limited (倡信國際有限公司), Good Excel Enterprises Limited (美佳企業有限公司), Rising Wave Enterprises Limited (昇濤企業有限公司), Reach Luck Consultants Limited (達運顧問有限公司), Now Rich Holdings Limited (現富控股有限公司), High Ascent Enterprises Limited, Mind Right Investments Limited (思威投資有限公司), Win Talent Enterprises Limited (興智企業有限公司), Fame Rich Group Limited (名富集團有限公司), Cheerful Hill Group Limited, Pine Billion Enterprises Limited (栢億企業有限公司), High Insight Enterprises Limited (高視企業有限公司), Extreme Beauty Enterprises Limited (至美企業有限公司), Power Place Enterprises Limited (力軒企業有限公司), Able Talent International Limited (才智國際有限公司), Fast Choice Group Limited (迅擇集團有限公司), Noble Wit Enterprises Limited (萃智企業有限公司), Act Power International Limited (動力國際有限公司), Faith Beauty International Limited, Upper Wisdom Investments Limited (上慧投資有限公司), Rich Come Enterprises Limited, Fast Great Holdings Limited (捷佳控股有限公司), Jumbo Yield Investments Limited (正熙投資有限公司), Trimming Star Group Limited (喜業集團有限公司), Bondie Investments Limited (顯恩投資有限公司), Champ Joyment Limited (佰基有限公司), Sammax Investments Limited (佳幸投資有限公司), Upper Step Investments Limited (軒安投資有限公司), Long Runn Holdings Limited (朗潤控股有限公司), Fancy Think Investments Limited (悅圖投資有限公司), Luck Creation Investments Limited (希順投資有限公司), Global Era Investments Limited (浩瑞投資有限公司), Fine Era Investments Limited (軒譽投資有限公司), Oak Plus Investments Limited (沛亨投資有限公司), Profit Spring Investments Limited (瑞晉投資有限公司), Total Super Investments Limited (皓凱投資有限公司), Truly Gain Investments Limited (軒志投資有限公司), Market Network Limited (庫國有限公司), Keen Honest Corporation Limited (誠銳有限公司), Asia Mex Investments Limited (奔聯投資有限公司), Fast Billion Investment Limited (兆迅投資有限公司), Beauty Sight Investments Limited (穎東投資有限公司), Nice Build Investments Limited (匡宏投資有限公司), Grace Friend Limited (誼欣有限公司), Ultra Express Limited (迅如有限公司), Able Wide Investment Limited (弘裕投資有限公司), Rich Vantage Trading Limited (潤富貿易有限公司), Ultra Profit International Investment Limited (揚利國際投資有限公司), Great Bloom Global Limited (廣盛環球有限公司) and Ease Wise Limited (慧宜有限公司). These Subsidiary Guarantors consist of all of the Company's Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (as defined below). Other than the initial Subsidiary Guarantors, none of the Company's other Restricted Subsidiaries organized outside of the PRC (collectively, the "Initial Other Non-Guarantor Subsidiaries") or the Restricted Subsidiaries organized under the laws of the PRC (collectively, the "PRC Non-Guarantor Subsidiaries") will be a Subsidiary Guarantor on the Original Issue Date.

None of the PRC Non-Guarantor Subsidiaries and the Initial Other Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee on the Original Issue Date. In addition, any future Restricted Subsidiaries that may be organized under the laws of the PRC will not at any time in the future provide a Subsidiary Guarantee or JV Subsidiary Guarantee.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an Independent Third Party such that it becomes a Subsidiary and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of a JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is made from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the Fair Market Value of such Capital Stock;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee and the Holders under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) for as long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, a duly executed Security Document that pledges in favor of the Shared Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and

- (iv) an Opinion of Counsel by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

As of December 31, 2020, the Company and its consolidated subsidiaries had total borrowings of approximately RMB77,860.6 million (US\$11,932.7 million), of which approximately RMB27,838.2 million (US\$4,266.4 million) was secured.

As of December 31, 2020, the Non-Guarantor Subsidiaries had total borrowings of approximately RMB40,378.4 million (US\$6,188.3 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB9,492.4 million (US\$1,454.8 million) and RMB53,211.4 million (US\$8,155.0 million), respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

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

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

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, Exempted Subsidiaries or Listed Subsidiaries) to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary.

Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary (and its Restricted Subsidiaries) organized outside the PRC not provide a Subsidiary Guarantee or JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary (the “New Other Non-Guarantor Subsidiary,” together with the Initial Other Non-Guarantor Subsidiaries, the “Other Non-Guarantor Subsidiaries”), provided that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20.0% of Total Assets.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become “New Other Non-Guarantor Subsidiaries”(such that each New Other Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Shared Security Agent to (i) discharge the pledge of the Capital Stock granted by each such New Other Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Other Non-Guarantor Subsidiary (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), provided that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Other Non-Guarantor Subsidiaries but excluding Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 20.0% of Total Assets. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than through a JV Subsidiary Guarantee is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC and the Other Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

In addition, subject to the limitations described in “Risk Factors-Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor will share on a pari passu basis with the agent for and on behalf of the holders of the January 2017 Notes, the holders of the March 2017 Notes, the holders of the September 2017 Notes, the holders of the November 2017 Notes, the agent for and on

behalf of the finance parties under the SCB 2018 Facility, the holders of the August 2018 Notes, the holders of the March 2019 Notes, the holders of the July 2019 Notes, the holders of the January 2020 Notes, the holders of the August 2020 Notes, the holders of the November 2020 Notes, the agent for and on behalf of the finance parties under the CS 2019 Facility (collectively “Existing Pari Passu Secured Indebtedness”) and agents or holders of other permitted pari passu secured indebtedness as permitted under such Existing Pari Passu Secured Indebtedness and any agent or holder of any future series of Permitted Pari Passu Secured Indebtedness and will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

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

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; provided that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee or JV Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable for any reason, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor’s liability on its JV Subsidiary Guarantee could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral—The Subsidiary Guarantees and JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or the JV Subsidiary Guarantees.”

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “—Defeasance—Defeasance and Discharge;”
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, disposition or merger of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Certain Covenants—Limitation on Asset Sales” and “—Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Other Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or a JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers’ Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale, whether through the sale of existing shares or the issuance of new shares is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor, provided that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the Fair Market Value of such Capital Stock;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee and the Holders under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) for as long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, a duly executed Security Document that pledges in favor of the Shared Security Agent the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) an Opinion of Counsel by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including the “Limitation on Asset Sales” and “Limitation on Restricted Payments” covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

Security

The Company has pledged, for the benefit of the holders of the Notes, or caused the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors other than Market Network Limited (庫國有限公司) (the “Collateral”) (subject to Permitted Liens and pari passu sharing described below) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The initial Subsidiary Guarantor Pledgors are Able Talent International Limited, Act Power International Limited, Boom Faith International Limited, Cheerful Hill Group Limited, Extreme Beauty Enterprises Limited, Fame Rich Group Limited, Fast Choice Group Limited, Fast Great Holdings Limited, Good Excel Enterprises Limited, Happy Clear Consultants Limited, High Ascent Enterprises Limited, High Insight Enterprises Limited, Hugeluck Investments Limited, Mind Right Investments Limited, Noble Wit Enterprises Limited, Now Rich Holdings Limited, Pine Billion Enterprises Limited, Power Place Enterprises Limited, Reach Luck Consultants Limited, Rising Wave Enterprises Limited, Win Talent Enterprises Limited, Rich Come Enterprises Limited and Upper Wisdom Investments Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries and Market Network Limited (庫國有限公司) will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Shared Security Agent.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock directly owned by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, as soon as practicable and in any event within 30 days after such Person becomes a Subsidiary Guarantor or JV

Subsidiary Guarantor, to secure (subject to Permitted Liens) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a pari passu basis pursuant to the Intercreditor Agreement (as defined below) by the holders of the Notes and the holders of other secured indebtedness, including but not limited to the agents or holders of the Existing Pari Passu Secured Indebtedness and agents or holders of other permitted pari passu secured indebtedness as permitted under such Existing Pari Passu Secured Indebtedness. 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 secured indebtedness.

Notwithstanding anything in the foregoing, the Company shall be entitled to release the security over the Collateral if all Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) has been repaid. After such release, subject to “—certain covenants-Limitation on Liens”, the Company shall not be obligated to pledge, or cause any Subsidiary Guarantor to pledge, as the case may be, the Capital Stock of any Subsidiary Guarantor or any JV Subsidiary Guarantor to secure the Notes or the relevant Subsidiary Guarantees.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “—Release of Security” and “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantee and the Collateral—The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement). By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Event of Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock

resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, for as long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral Pari Passu with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any Pari Passu Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such Pari Passu Guarantee, “Permitted Pari Passu Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock,” (2) the holders (or their representatives) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents or (y) no such action is necessary to make such Lien effective. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents, the Intercreditor Agreement or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

The Company, the initial Subsidiary Guarantor Pledgors, and Citicorp International Limited (the “Shared Security Agent”), among others, have entered into an intercreditor agreement dated August 18, 2010 (as so amended and supplemented from time to time, the “Intercreditor Agreement”), to which, the trustee with respect to the January 2017 Notes (the “January 2017 Notes Trustee”) acceded on January 11, 2017, the trustee with respect to the March 2017 Notes (the “March 2017 Notes Trustee”) acceded on March 15, 2017, the trustee with respect to the September 2017 Notes (the “September 2017 Notes Trustee”) acceded on September 21, 2017, the trustee with respect to the November 2017 Notes (the “November 2017 Notes Trustee”) acceded on November 10, 2017, SCB as agent for and on behalf of the finance parties under the SCB 2018 Facility acceded on June 5, 2018, the trustee with respect to the August 2018 Notes (the “August 2018 Notes Trustee”) acceded on August 9, 2018, the trustee with respect to the March 2019 Notes (the “March 2019 Notes Trustee”) acceded on March 1, 2019, the trustee with respect to the July 2019 Notes (the

“July 2019 Notes Trustee”) acceded on July 29, 2019, CS as agent for and on behalf of the finance parties under the CS 2019 Facility acceded on December 4, 2019 and the trustee with respect to the January 2020 Notes (the “January 2020 Notes Trustee”) acceded on January 13, 2020, the trustee with respect to the August 2020 Notes acceded on August 10, 2020, the trustee with respect to the November 2020 Notes acceded on November 13, 2020 and any agents or holders of other permitted pari passu secured indebtedness as permitted under the Existing Pari Passu Secured Indebtedness who become parties to the Intercreditor Agreement. The Trustee will accede to the Intercreditor Agreement on the Original Issue Date, pursuant to which it will agree to (1) share the Collateral on an equal and ratable basis with the other secured parties, (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral, and (3) the conditions under which its rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

In connection with the Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their representative) will accede to the Intercreditor Agreement to include the holders of such Permitted Pari Passu Secured Indebtedness as parties to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any supplements, amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, have been granted to the Shared Security Agent, subject to pari passu sharing pursuant to the Intercreditor Agreement and the release of the Liens on the Collateral upon repayment of all Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees). The Shared Security Agent will hold such liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Shared Security Agent has agreed to act as secured party on behalf of the Trustee (for the benefit of the Holders) under the applicable Security Documents and the Intercreditor Agreement, to follow the instructions provided to it under the Indenture, the Intercreditor Agreement and the Security Documents 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 Shared Security Agent shall have the right to manage, perform and enforce the terms of the Security Documents and the Intercreditor Agreement 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. However, although the Trustee may instruct the Shared Security Agent to foreclose the Collateral upon the occurrence of an Event of Default that is continuing, such instruction may be overruled by a contrary instruction to the Shared Security Agent from holders of more than 50% of the indebtedness that is subject to the Intercreditor Agreement. See “Risk Factors—The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the January 2017 Notes, the March 2017 Notes, the September 2017 Notes, the November 2017 Notes, the August 2018 Notes, the March 2019 Notes, the July 2019 Notes, the January 2020 Notes, the August 2020 Notes, the November 2020 Notes and other pari passu secured indebtedness.”

All payments received and all amounts held by the Shared Security Agent in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Shared Security Agent for any unpaid fees, costs and expenses incurred under the Intercreditor Agreement or the Security Documents;

second, pro rata to each of the Trustee, the January 2017 Notes Trustee, the March 2017 Notes Trustee, the September 2017 Notes Trustee, the November 2017 Notes Trustee, SCB as agent of the finance parties under the SCB 2018 Facility, the August 2018 Notes Trustee, the March 2019 Notes Trustee, the July 2019 Notes Trustee, the January 2020 Notes Trustee, the August 2020 Notes Trustee, CS as agent of the finance parties under the CS 2019 Facility, the November 2020 Notes Trustee, SCB as agent of the finance parties under the SCB 2020 Facility, agents or holders of other permitted pari passu secured indebtedness as permitted under the Existing Pari Passu Secured Indebtedness and any agent or representative of any series of Permitted Pari Passu Secured Indebtedness for any unpaid fees, costs and expenses under the applicable secured party document;

third, pro rata to each of the Trustee for the benefit of Holders, the January 2017 Notes Trustee for the benefit of the holders of the January 2017 Notes, the March 2017 Notes Trustee for the benefit of the holders of the March 2017 Notes, the September 2017 Notes Trustee for the benefit of the holders of the September 2017 Notes, the November 2017 Notes Trustee for the benefit of the holders of the November 2017 Notes, SCB for the benefit of the finance parties under the SCB 2018 Facility, the August 2018 Notes Trustee for the benefit of the holders of the August 2018 Notes, the March 2019 Notes Trustee for the benefit of the holders of the March 2019 Notes, the July 2019 Notes Trustee for the benefit of the holders of the July 2019 Notes, the January 2020 Notes Trustee for the benefit of the holders of the January 2020 Notes, the August 2020 Notes Trustee for the benefit of the holders of the August 2020 Notes, CS for the benefit of the finance parties under the CS 2019 Facility, the November 2020 Notes Trustee for the benefit of the holders of the November 2020 Notes, SCB as agent of the finance parties under the SCB 2020 Facility, agents or holders of other permitted pari passu secured indebtedness as permitted under the Existing Pari Passu Secured Indebtedness and any agent or representative of any series of Permitted Pari Passu Secured Indebtedness and, to the extent applicable, to holders of future Permitted Pari Passu Secured Indebtedness (or their representative), inclusive of any fees and expenses of each secured party (to the extent not paid pursuant to the second item above), and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

fourth, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Shared Security 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 Shared Security 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 Shared Security Agent's Liens on the Collateral. Neither the Trustee, the Shared Security Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Shared Security Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Shared Security 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

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon 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 “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “—Limitation on Asset Sales” or in accordance with the provision under the caption “—Consolidation, Merger and Sale of Assets;”
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture;
- with respect to a Subsidiary Guarantor that becomes a New Other Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Other Non-Guarantor Subsidiary;
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor or JV Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the terms of the Indenture; or
- with respect to the security over the Collateral pledged to secure the Notes, upon repayment of all Indebtedness secured by the Collateral or release of such Collateral, concurrently with or prior to the release pursuant to this clause, of all security over the Collateral securing such Indebtedness (in each case other than the Indebtedness represented by the Notes and the Subsidiary Guarantees).

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees, JV Subsidiary Guarantees and the pledges of the Collateral) 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 under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after August 14, 2024, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on August 14 of each of the years indicated below:

<u>Period</u>	<u>Redemption Price</u>
2024	103%
2025	101.5%

At any time prior to August 14, 2024, 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 any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time prior to August 14, 2024, 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 106% 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 originally 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.

At any time on or after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, 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 accrued and unpaid interest, if any, to (but not including) the redemption date.

The Company will give not less than 15 days’ nor more than 60 days’ notice of any redemption.

Selection and Notice

The Company will give not less than 15 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange and/or being held through any clearing systems in compliance with the requirements of the principal national securities exchange on which the Notes are listed and/or any applicable requirements of the clearing systems through which the Notes are held; or
- (2) if the Notes are not listed on any national securities exchange or held through any clearing system on a pro rata basis, by lot or by such method as the Trustee in its sole and absolute discretion deems fair and appropriate unless otherwise required by law.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary Guarantor's then-existing

financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors—Risks Relating to the Notes—We may not be able to repurchase the Notes upon a Change of Control Triggering Event.”

The phrase “all or substantially all,” as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

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.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control Triggering Event has occurred and shall not be responsible or liable to Holders, the Company, the Subsidiary Guarantors or any other person for any loss arising from any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or an applicable JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payments are made (or any political subdivision or taxing authority thereof or therein) (together with each Relevant Taxing Jurisdiction, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or the applicable JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note, the Subsidiary

Guarantees or the JV Subsidiary Guarantees, as the case may be, 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 or Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, or interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request 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, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the 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 pursuant to the implementation of FATCA, or any agreement with the U.S. Internal Revenue Service pursuant to the implementation of FATCA; or

- (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) with respect to any payment of the principal of, or premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee or JV Subsidiary Guarantee to a Holder, if the Holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all Holders of Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 15 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying Agent, 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 Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective, or, in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor or JV Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver or procure that there is delivered to the Trustee at least 15 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, 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 Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall be entitled to conclusively rely on and to accept such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor 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 2.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Non-Guarantor Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any pari passu Guarantees;

- (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
- (d) 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 (d) and (ii) if the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor, or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, in the case of a JV Subsidiary Guarantor;
- (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (o), (p), (q), (r), (s), (t) or (u) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor;

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations to reduce or manage the exposure of the Company or any of its Restricted Subsidiaries to fluctuations in interest rates, currencies or the price of commodities;
- (g) Pre-registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing(x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount of Indebtedness that was permitted to be Incurred under clauses (q), (r), (s), (t) and (u) below and refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, 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 the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any

portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;

- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business provided, however, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (o) 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\$30.0 million (or the Dollar Equivalent thereof);
- (p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in 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 enters into such Staged Acquisition Agreement;
- (q) Indebtedness Incurred by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above and clauses (r), (s), (t) and (u) below and the refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) 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 30% of Total Assets;
- (r) 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 aggregate principal amount of all such Indebtedness permitted by this clause (r) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (q) above and clauses (s), (t) and (u) below and the refinancing thereof, but excluding any Contractor Guarantee Incurred under clause (h) 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 30% of Total Assets;

- (s) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, *provided* that on the date of Incurrence of such Indebtedness, the aggregate principal amount outstanding of such Indebtedness Incurred under this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (q) and (r) above and clauses (t) and (u) below and the refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h) 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 30% of Total Assets;
 - (t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount of all such Indebtedness permitted by this clause (t) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r) and (s) above and clause (u) below and the refinancing thereof, but excluding any Contractor Guarantee Incurred under clause (h) 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 30% of Total Assets;
 - (u) Indebtedness Incurred by the Company or any Restricted Subsidiary which is secured by Investment Properties and Guarantees thereof by the Company or any Restricted Subsidiary, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount of all such Indebtedness permitted by this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r), (s) and (t) above and the refinancing thereof, but excluding any Contractor Guarantee Incurred under clause (h) 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 30% of Total Assets; and
 - (v) Indebtedness constituting a Subordinated Shareholder Loan.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso

in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement);
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Wholly Owned Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment,

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock,” *provided, however*, this clause (b) does not have to be satisfied with respect to any Restricted Payment consisting solely of (i) the declaration or payment of dividends on the Common Stock of the Company or (ii) the redemption, repurchase or other acquisition of shares of Common Stock of the Company as permitted under any general mandate approved by shareholders of the Company at the relevant annual general meeting, in an aggregate amount not to exceed, with respect to any fiscal year, together with any other such dividend declared or paid or redemption, repurchase or other acquisition of shares of

Common Stock with respect to the same fiscal year, 50.0% of the consolidated “profit for the year” of the Company calculated in accordance with GAAP for such fiscal year; or

- (c) such Restricted Payment, together with the aggregate amount of all (1) Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and its Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall not exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the 2010 Notes were first issued 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 Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
 - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
 - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the

Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, 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.

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) 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; or
- (6) dividends paid to, or the purchase of Capital Stock of any Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “Limitation on Indebtedness and Preferred Stock” covenant;

- (7) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this “—Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (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 (x) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (y) 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) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with an employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, or (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock shall not exceed US\$5.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination); or
- (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,

provided that, in the case of clause (2), (3), (4) or (10) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities and any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the

Restructuring upon designation of such Subsidiaries as Unrestricted Subsidiaries (to the extent such Investment does not constitute a Permitted Investment pursuant to clause (17) of the definition thereof) 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 Payment set forth in clause (5) through (10) above and any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the Restructuring upon designation of such Subsidiaries as Unrestricted Subsidiaries (to the extent such Investment does not constitute a Permitted Investment pursuant to clause (17) of the definition thereof)), 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.

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, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness or pari passu Guarantee, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more

restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (b) existing under or by reason of applicable law, rule, regulation or order;
- (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Limitation on Indebtedness and Preferred Stock” and “—Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(h), (2)(q), (2)(r), (2)(s), (2)(t) or (2)(u) or permitted under clause (2)(n) or (2)(o) of 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, with respect to clauses (2)(h), (2)(o), 2(q), (2)(r), (2)(s), (2)(t) and (2)(u), 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 (x) the ability of the Company to make the required payments on the Notes or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (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; *provided* that any remaining Investment in such Person would have been permitted to be made under the "—Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and that the Company complies with the "—Limitation on Asset Sales" covenant, *provided* further that, paragraph (c) of clause (16) of the definition of "Permitted Investment" shall not apply if such Investment would otherwise have been permitted under clause (16) of such definition; and
- (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 which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (2)(d) or (2)(s) (in the case of clause (2)(s), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of cash deposits, one or more bank accounts or other assets to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness), under the caption “—Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% 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 as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other reasonable and customary compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1), (2) or (3) of the first paragraph of the covenant described above under the caption “—Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option or other incentive scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (9) of the second paragraph of the covenant entitled “—Limitation on Restricted Payments;”
- (7) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in connection with the proposed Restructuring, including but not limited to transactions entered into for purposes of any reorganization in connection with the proposed Restructuring and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the proposed Restructuring; and
- (8) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the

proposed Restructuring, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the proposed Restructuring and in compliance with the rules of The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are then listed for trading.

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 (A) any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or (B) the Company or a Restricted Subsidiary on the one hand and any Minority Joint Venture or an Unrestricted Subsidiary on the other hand; *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 a Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or Jointly Controlled Entity, as the case may be, is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or other partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, as the case may be).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under "—Limitation on Indebtedness and Preferred Stock" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or any Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “—Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% 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\$15.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Businesses or Capital Stock in any Person primarily engaged in the Permitted Businesses (together, “Replacement Assets”); and 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 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceeds US\$10 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all pari passu Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other pari passu Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee (in consultation with the Company) will select the Notes (and such other pari passu Indebtedness) to be purchased on a pro rata basis based on the principal amount of the Notes (and such other pari passu Indebtedness) tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company’s Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided*, however, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was 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 acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum (and with respect to any Additional Notes, as contemplated in the offering document in connection with the offering 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 has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “—Limitation on Liens;” (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “—Limitation on Restricted Payments” (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group upon the designation of the Restructuring Group as Unrestricted Subsidiaries in connection with the proposed Restructuring).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “—Limitation on Liens;” (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not a Non-Guarantor Subsidiary, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor; and (6) for as long as any Indebtedness secured by the Collateral (other than Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, if such Restricted Subsidiary is not a Non-Guarantor Subsidiary, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “—Security.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of

operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from the Rating Agency and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from the Rating Agency, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Certain Covenants—Limitation on Indebtedness and Preferred Stock;”
- (2) “—Certain Covenants—Limitation on Restricted Payments;”
- (3) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;”
- (4) “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;”
- (5) “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries;”
- (6) “—Certain Covenants—Limitation on the Company’s Business Activities;”
- (7) “—Certain Covenants—Limitation on Sale and Leaseback Transactions;” and
- (8) “—Certain Covenants—Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event,

and following reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders (in the English language):
 - (a) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 90 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent quarter periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation *provided* that the Company shall not be required to provide such 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 or an Event of Default, an Officers' Certificate setting forth the details of the Default or the Event of Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenant described under "—Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "—Repurchase of Notes upon a Change of Control Triggering Event" or "—Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "—Security;"
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$30.0 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 of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$30.0 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 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 for any substantial part of the property and assets of the Company or any 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 under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

- (8) the Company or any 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 for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture, the Intercreditor Agreement and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Shared Security Agent ceases to have a security interest in the Collateral (subject to any Permitted Liens).

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 request of such Holders shall (and subject to being indemnified and/or secured to its satisfaction by the Holders), 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, 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 aggregate principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and

- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon written request of Holders of at least 25% in aggregate principal amount of outstanding Notes (and subject to being indemnified and/or secured to its satisfaction by the Holders), (i) give the Shared Security Agent a written notice of the occurrence of such continuing Event of Default and (ii) instruct the Shared Security Agent in accordance with the terms of the Intercreditor Agreement to foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “—Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and/or security satisfactory to it; 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, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See “—Provision of Financial Statements and Reports.”

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which payments are made, 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 the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “—Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor);
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “—Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees.”

For the avoidance of doubt, for purposes of this covenant “—Consolidation, Merger and Sale of Assets”, a sale of shares of Capital Stock of a Restricted Subsidiary which holds all or substantially all properties and assets of the Company or the relevant Subsidiary Guarantor or JV Subsidiary Guarantor to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such Restricted Subsidiary where such Restricted Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company, immediately after such sale, owns, directly or indirectly, at least 30.0% of the Voting Stock of such Restricted Subsidiary shall not constitute a sale of substantially all properties and assets of the Company or the relevant Subsidiary Guarantor or JV Subsidiary Guarantor.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

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 paragraph, 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 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, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (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 of such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit 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 of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

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 (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “—Consolidation, Merger and Sale of Assets” and 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 (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to 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 and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event 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 in respect of the Notes that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee (or its agent) 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 Waivers

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) provide for the assumption of the Company’s or any Subsidiary Guarantor or JV Subsidiary Guarantor’s obligations pursuant to or otherwise comply with the provisions described under “—Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;

- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream or any other applicable clearing system;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee and the Shared Security Agent to enter into any amendments to the Intercreditor Agreement or the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (11) make any other change that does not materially and adversely affect the rights of any Holder; or
- (12) conform the text of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees or the Intercreditor Agreement 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 of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees or the Intercreditor Agreement.

Amendments With Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and the holders of a majority in principal amount of the Notes may waive future compliance by the Company with any provision thereof; *provided*, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;

- (8) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under the caption “—Redemption for Taxation Reasons;”
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders;

provided further, that no such modification, amendment or waiver may, without the consent of Holders of not less than 75% in aggregate principal amount of the outstanding Notes, change the redemption date or the redemption price of the Notes from that stated under the caption “—Optional Redemption.”

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The

waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Agents

China Construction Bank (Asia) Corporation Limited is to be appointed as Trustee under the Indenture. Citicorp International Limited has been appointed as Shared Security Agent with respect to the Collateral under the Security Documents and the Intercreditor Agreement. China Construction Bank (Asia) Corporation Limited is to be appointed as registrar (the “Registrar”) and as paying agent (the “Paying Agent”) and transfer agent (the “Transfer Agent”) with regard to the Notes. Except during the continuance of an Event of Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided*, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Citicorp International Limited acts as the Shared Security Agent under the Security Documents in respect of the security over the Collateral. The Shared Security 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 Shared Security Agent may have obligations under the Security Documents, the Intercreditor Agreement that are in conflict with the interests of the Trustee, the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Shared Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture (if applicable), the Intercreditor Agreement or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Shared Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Shared Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Notes, the Indenture, the Intercreditor Agreement and the Security Documents and has not relied on and will not at any time rely on the Trustee or the Shared Security Agent in respect of such risks.

The Trustee and the Shared Security Agent are entitled to conclusively rely on all certifications received pursuant to the Indenture (if applicable), the Intercreditor Agreement and the Security Documents without investigating the accuracy, authenticity and validity of these certifications.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “—Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee, 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. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “—Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee 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 Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents 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
- any action or failure to any action by 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 depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

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.

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 Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents 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 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 depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Trustee or the Registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor, as the case may be, at the principal office of the Company; (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 and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture and the Intercreditor Agreement provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the notes” for which no definition is provided.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after August 14, 2024, 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 date when the redemption notice is given by the Company to the Holders.

“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.

“August 2020 Notes” means any and all outstanding notes of the \$200,000,000 5.95% Senior Notes due 2025 of the Company.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at August 14, 2024 (such redemption price being set forth in the table appearing above under the caption “— Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note through August 14, 2024 (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 of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including, but not limited to, properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “—Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “—Consolidation, Merger and Sale of Assets;” and
- (7) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“August 2018 Notes” means any and all outstanding notes of 7.875% Senior Notes due 2021 of the Company.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is (i) secured by cash deposits, bank accounts or other assets of the Company or a Restricted Subsidiary and/or (ii) Guaranteed by a Guarantee, letter of credit or similar instruments from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchange currency or remit money onshore or offshore.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“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.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 35% of the total voting power of the Voting Stock of the Company;

- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner”(as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

For the avoidance of doubt, for purposes of this definition of “—Change of Control”, a sale of shares of Capital Stock of a Restricted Subsidiary to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such Restricted Subsidiary where such Restricted Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company, immediately after such sale, owns, directly or indirectly, at least 30.0% of the Voting Stock of such Restricted Subsidiary shall not constitute a sale of substantially all properties and assets of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, provided the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to August 14, 2024 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 August 14, 2024.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company, Reference Treasury Dealer Quotations for such redemption date.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in

accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP), all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“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 the Company or any Restricted Subsidiary (other than Pre-registration Mortgage Guarantees), only to the extent such interest is actually paid 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 Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and/or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains;

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of 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 semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used 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.

“CS 2019 Facility” means the term loan facility in an aggregate principal amount of US\$250.0 million made available to Great Bloom Global Limited (廣盛環球有限公司), one of the Company’ subsidiaries and one of the Subsidiary Guarantors, pursuant to an agreement dated November 27, 2019 between, among others, Great Bloom Global Limited (廣盛環球有限公司), the Company and Credit Suisse AG, Singapore Branch (“S” as agent).

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for

provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Existing Pari Passu Secured Indebtedness” has the meaning set forth under the “—The Subsidiary Guarantees and JV Subsidiary Guarantees.”

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of international standing appointed by the Company.

“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 periods 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 such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such

transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;

- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Preferred Stock issued by any such Person that is a Restricted Subsidiary and Disqualified Stock issued by any Person valued, in each case, at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Trust Company Investor that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be “Indebtedness.”

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, deferred payment obligations, pre-sale receipts in advance from customers, deferred payment obligation 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 or (2) Entrusted Loans; *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 on the balance sheet as borrowing will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and

- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation were terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company. “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 reduce or manage exposure to fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person 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 proportional interest in the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “–” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency, 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 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.

“January 2017 Notes” means any and all outstanding notes of 6.00% Senior Notes due 2022 of the Company.

“July 2019 Notes” means any and all outstanding notes of 7.40% Senior Notes due 2024 of the Company.

“January 2020 Notes” means any and all outstanding notes of 7.40% Senior Notes due 2027 of the Company.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “—The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listed Subsidiaries” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; *provided* that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“March 2017 Notes” means any and all outstanding notes of 6.00% Senior Notes due 2022 of the Company.

“March 2019 Notes” means any and all outstanding notes of 7.875% Senior Notes due 2023 of the Company.

“Measurement Date” means August 18, 2010.

“Minority Joint Venture” means any corporation, association or other business entity which 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.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property

received when converted to cash or cash equivalents, net of:

- (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“November 2017 Notes” means any and all outstanding notes of 5.875% Senior Notes due 2024 of the Company.

“November 2020 Notes” means any and all outstanding notes of 6.3% Senior Notes due 2026 of the Company.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price, 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”) and the applicable Rate Calculation Date;
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one business day prior to the Offer to Purchase Payment Date, the Company will deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portion 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 Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 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 Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; provided, however, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor or JV Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“*pari passu* Guarantee” means a Guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; *provided* that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “—Limitation on Indebtedness and Preferred Stock” and (2) such Guarantee ranks *pari passu* with the Notes, with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “—Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “—Limitation on Asset Sales” or (4) any Event of Default specified in clause (4) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. Kong Jian Min, Mr. Kong Jian Tao or Mr. Kong Jian Nan;
- (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 reduce or manage the exposure of the Company or any Restricted Subsidiary to fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “—Limitation on Asset Sales;”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens;”
- (10) any Investment pursuant to Pre-registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business; and
- (16) any Investment (including without limitation 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 primarily engaged in a Permitted Business; *provided* that:

- (a) none of the other holders of Capital Stock of such Person is a Person described in clause (x) or (y) of the first paragraph of the covenant described under “—Limitation on Transactions with Shareholders and Affiliates” covenant (other than by reason of such holder being an officer or director of the Company, a Restricted Subsidiary, Unrestricted Subsidiary or Minority Joint Venture);
 - (b) such Investment, together with (x) the aggregate of all other Investments made under this clause (16) since the Original Issue Date, less (y) an amount equal to the net reduction in all Investments made under this clause (16) since the Original Issue Date resulting from (A) receipt of payments in cash by the Company or any Restricted Subsidiary in respect of all such Investments, including interest on or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payments are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee of any obligation of such Person provided under this clause (16) after the Original Issue Date by the Company or any Restricted Subsidiary, (C) to the extent that an Investment made after the Original Issue Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (i) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (ii) the initial amount of such Investment, or (D) such Person becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in such Person since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this “Permitted Investment” definition), not to exceed, in each case, the amount of Investments (other than Permitted investments) made by the Company or any Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (16), will not exceed an aggregate amount equal to 25% of Total Assets;
 - (c) in the case of any Investment by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the Company must be able to incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock;” *provided however* that this paragraph (c) shall not apply if such Investment would otherwise have been permitted under this clause (16) and such Investment, together with the aggregate amount of all other Investments made in reliance on this proviso since the Original Issue Date, shall not exceed in aggregate an amount equal to 5% of Total Assets (such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made in reliance on this proviso since the Original Issue Date resulting from the events set forth in paragraphs (b)(A) through (b)(D) above, where references in such paragraphs to “under this clause (16)” shall be substituted with “in reliance on the proviso in paragraph (c)”); and
 - (d) no Default has occurred and is continuing or would occur as a result of such Investment;
- (17) any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the proposed Restructuring upon designation of the Subsidiaries in the Restructuring Group as Unrestricted Subsidiaries, *provided* that (A) (i) the Board of Directors of the Company has determined in good faith

that the designation of the Subsidiaries in the Restructuring Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the proposed Restructuring, (ii) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company, and (iii) at the time of such designation, the members of the Restructuring Group remain primarily engaged in the Permitted Businesses; and (B) the aggregate of all Investments made under this clause (17) since the Original Issue Date shall not exceed an amount equal to 15% of Total Assets (for the avoidance of doubt, any portion of such Investments exceeding 15% of Total Assets shall not constitute a Permitted Investment pursuant to this item but may be made, characterized and accounted for in accordance with the other provisions of the Indenture); and

- (18) Guarantees permitted under the second paragraph of the covenant described under the caption entitled “—Limitation on Indebtedness and Preferred Stock.”

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;

- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock;”
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “—Limitation on Indebtedness and Preferred Stock;” *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “—Security—Permitted Pari Passu Secured Indebtedness;”
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock;”
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business

and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a Restricted Subsidiary granted by the Company or any Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness permitted to be Incurred under paragraph (q) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (23) Liens on the Capital Stock of Minority Joint Venture granted by the Company or any Restricted Subsidiary where such Minority Joint Venture was established to conduct a Permitted Business;
- (24) Liens Incurred on cash deposits, bank accounts or other assets to secure Bank Deposit Secured Indebtedness of the type described under paragraph (s) of the second paragraph of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant; and
- (25) Liens Incurred on deposits to secure Entrusted Loans;
- (26) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause 2(p) of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (27) Liens securing Indebtedness Incurred under clause (2)(t) of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;
- (28) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary Incurred under clause 2(u) of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant; and

- (31) Liens on assets of a Non-Guarantor Subsidiary securing any Permitted Subsidiary Indebtedness of any Non-Guarantor Subsidiary permitted to be Incurred under the proviso in paragraph (1) of the “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to Liens described in clauses (1), (6), (13) and (14) 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 (other than Public Indebtedness) of, and all Preferred Stock issued by, the Non-Guarantor Subsidiaries, taken as a whole; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (but excluding the amount of any Public Indebtedness and any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses 2(a), (b), (d), (f) and (g) 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 CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over 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.

“Qualified Exchange” means either (1) The New York Stock Exchange, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Nasdaq Stock market, Singapore Exchange Securities Trading Limited, The Shanghai Stock Exchange or The Shenzhen Stock Exchange or (2) a national securities exchange (as such term is defined in Section 6 of the U.S. Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the U.S. Securities Act).

“Qualified IPO” means an initial public offering, and a listing, of ordinary shares of a company on a Qualified Exchange; *provided* that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the U.S. Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the U.S. Securities Act), such listing shall result in a public float of no less than the percentage required by the applicable listing rules.

“Rating Agency” means (1) Fitch and (2) 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 (“+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Fitch, a decline in a rating from “BB+” to “BB,” as well as from “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 the caption “—Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency) of any of the events listed below, or (2) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” the notification by 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 either the Rating Agency shall be below Investment Grade; or
- (b) in the event the Notes are rated below Investment Grade by the Rating Agency on the Rating Date, the rating of the Notes by the Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Renminbi” or “RMB” means the lawful currency of the PRC.

“Restricted Subsidiary” means any Subsidiary of the Company, other than an Unrestricted Subsidiary.

“Replacement Assets” has the meaning assigned to such term under the “Limitation on Asset Sales” covenant.

“Restructuring” means the restructuring and Qualified IPO of the ordinary shares of a Subsidiary of the Company in the Restructuring Group.

“Restructuring Group” means the group of Subsidiaries of the Company which are engaged in Permitted Business that the Company may spin off and separately listed on a Qualified Exchange.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“SCB 2018 Facility” means the term loan facility in the amount of HK\$585 million and US\$60 million, respectively, with a greenshoe option of up to US\$500 million made available to the Company pursuant to an agreement dated June 5, 2018 between, among others, the Company and SCB as agent (as amended, supplemented or modified from time to time).

“SCB 2020 Facility” means the transferrable HKD and USD dual currency term loan facility with a greenshoe option of up to US\$400 million made available to the Company pursuant to an agreement dated December 23, 2020 between, among others, the Company and SCB as agent (as amended, supplemented or modified from time to time).

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Shared Security Agent, the Trustee and/or any Holders (or any Person on behalf of the Trustee or any Holders) in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV

Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) Trade Payables or (3) Indebtedness Incurred in violation of the Indenture.

“September 2017 Notes” means any and all outstanding notes of 5.20% Senior Notes due 2022 of the Company.

“Significant Restricted Subsidiary” means any Restricted Subsidiary, or any group of Restricted Subsidiaries that, taken together, would be “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1–02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture, if any of the conditions exceeds 5 percent.

“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 a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, (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) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (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 a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges, or purports to pledge, Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, the United Kingdom, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, the United Kingdom, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;
- (2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, the United Kingdom, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A”(or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “F-1”(or higher) according to Fitch or “A-1”(or higher) according to S&P;

- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P, 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) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any bank or trust company organized under the laws of the PRC, Hong Kong 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, Hong Kong or Singapore 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 period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“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 or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“Unrestricted Subsidiary” means Ally Fortune Limited (熹進有限公司), Rising Wave Enterprises Limited (昇濤企業有限公司) and 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 any Subsidiary of an Unrestricted Subsidiary (including but not limited to Ally Fortune Limited (熹進有限公司) and Rising Wave Enterprises Limited (昇濤企業有限公司)). See “Corporate Structure.”

“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 are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, BVI, Hong Kong and PRC tax consequences relating to the Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

Pursuant to section 6 of the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of the Company; or (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act.

The undertaking for the Company is for a period of twenty years from August 8, 2006.

There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

BVI

There is no income or other tax in the BVI imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or distributions in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Distributions on the Notes will be subject to Hong Kong profits tax where such distributions has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such distributions is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations 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, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest

The EIT Law, effective January 1, 2008, imposes a withholding tax at the rate of 10% on interest from PRC sources paid to holders of notes that are “non-resident enterprises” so long as any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise, as described in “Risk Factors—Risk Relating to China—Our income tax obligations may increase, dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be subject to PRC tax.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, interest payable to non-resident holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax

at the rate of 10% in case of non-resident enterprise holders of the Notes or 20% in case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our position on such issue. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes. However, it is unclear whether in practice non-resident holders would be able to obtain the benefits of any arrangements or income tax treaties entered into between PRC and their countries.

Taxation on Capital Gains

The EIT Law imposes a tax at the rate of 10% on capital gains from PRC sources realized by holders of notes that are “non-resident enterprises” if any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise, as described in “Risk Factors—Risk Relating to China—Our income tax obligations may increase, dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be subject to PRC tax.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, the capital gains realized by non-resident holders of the Notes may be treated as income derived from sources within China and be subject to PRC tax at the rate of 10% in case of non-resident enterprise holders of the Notes or 20% in case of non-resident individual holders of the Notes. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes. However, it is unclear whether in practice non-resident holders would be able to obtain the benefits of any arrangements or income tax treaties entered into between PRC and their countries.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside China) of a Note.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated May 10, 2021 (the “Purchase Agreement”), China CITIC Bank International Limited, CMBC Securities Company Limited, Goldman Sachs (Asia) L.L.C., Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Standard Chartered Bank and The Bank of East Asia, Limited (the “Initial Purchasers”) have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the following aggregate principal amount of the Notes:

Initial Purchasers	Principal Amount of Notes
China CITIC Bank International Limited	US\$42,000,000
CMBC Securities Company Limited	US\$42,000,000
Goldman Sachs (Asia) L.L.C.	US\$42,000,000
Guotai Junan Securities (Hong Kong) Limited.	US\$42,000,000
Haitong International Securities Company Limited	US\$42,000,000
The Hongkong and Shanghai Banking Corporation Limited	US\$42,000,000
J.P. Morgan Securities plc	US\$42,000,000
Standard Chartered Bank	US\$42,000,000
The Bank of East Asia, Limited	US\$42,000,000
Total.	US\$378,000,000

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is subject to the approval of certain legal matters by their counsels and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers. We have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Notes by their private bank clients.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Notes are a new issue of securities with no established trading market. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. 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. We have been advised by the Initial Purchasers that, in connection with the offering of the Notes, the Initial Purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may over allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchasers are not required to

engage in these activities and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes. These transactions may be effected in the over-the-counter market or otherwise.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fourth business day following the pricing date of the Notes (this settlement cycle being referred to as “T+4”). Accordingly, purchasers who wish to trade Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Notes initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade 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 legal advisor.

We have been advised that the Initial Purchasers presently intend to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchasers and its respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers and its respective affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory, investment banking and commercial banking services, for us and our affiliates in the ordinary course of business and may be paid fees in connection with such services from time to time. See “Description of Material Indebtedness and Other Obligations.” In the ordinary course of their various business activities, the Initial Purchasers and its respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity as investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Company or its subsidiaries, jointly controlled entities or associated companies, including the Notes, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes may be purchased by or be allocated to the Initial Purchasers or an affiliate for asset management and/or proprietary purposes but not with a view to distribution. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. We may from time to time enter into hedging or other derivative transactions, including swap agreements, future or forward contracts, option agreements or other similar arrangements, as part of our risk management strategy with the Initial Purchasers and its respective affiliates, which may include transactions relating to our obligations under the Notes all to the extent permitted under the Indenture. Our obligations under these transactions may be secured by cash or other collateral permitted under the Indenture.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, such offering shall be made by the Initial Purchasers or affiliate on behalf of the Company in such jurisdiction.

Selling Restrictions

General

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States and may only be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Initial Purchasers have represented and agreed that: (A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving, the United Kingdom.

UK PRIIPs Regulation/Prohibition of Sales to United Kingdom Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “UK”).

For these purposes, a retail investor means a person who is one (or more) of:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); or
- (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “FSMA”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PRIIPs/Prohibition of Sales to EEA Retail Investors

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area (“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 Directive 2014/65/EU (as amended, “MiFID II”); or
- (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Furthermore, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA. Consequently no key information document as would be required by Regulation (EU) No 1286/2014 (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.

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) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in 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).

Hong Kong

The Notes will not be offered or sold in Hong Kong, by means of any document, other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") and any rules made thereunder; or (ii) in other circumstances which do not result in any such document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. 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 being issued, 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" as defined in the SFO and any rules made thereunder.

Japan

The Initial Purchasers have represented, warranted and undertaken that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law") and that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale,

directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

Italy

The Initial Purchasers have represented and agreed that: (i) they shall not make any solicitation in connection with any offering of Notes in Italy; (ii) no copies of this offering memorandum or any other documents relating to the Notes will be distributed in Italy; and (iii) no Notes may be offered, sold or delivered in Italy.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes.

British Virgin Islands

No invitation will be made directly or indirectly to the public in the BVI to subscribe for any of the Notes.

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 are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (collectively, the “Securities”), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Securities have not been registered under the Securities Act or any other applicable securities laws;
 - the Securities are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - the Securities are being offered and sold only outside of the United States, in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and you are purchasing the Securities in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Securities 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 Securities in violation of the Securities Act.
5. You acknowledge that we, the Initial Purchasers, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us, the Transfer Agent and the Initial Purchasers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes are expected to be rated BB- by Fitch Ratings. Such rating reflects the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. 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 long-term corporate credit rating of B1 by Moody's Investors Service with a stable outlook, B+ by Standard and Poor's Rating Services with a stable outlook and a long-term corporate rating of BB- by Fitch Ratings with a stable outlook. 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 United States federal and New York and Hong Kong law, Conyers Dill & Pearman as to matters of Cayman law, Conyers Dill & Pearman as to matters of BVI law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Joint Lead Managers by Shearman & Sterling as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT ACCOUNTANT

Our consolidated financial statements as of and for the years ended December 31, 2018, 2019 and 2020 included in this offering memorandum have been audited by Ernst & Young, independent certified public accountants, as stated in their reports appearing herein.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entry into the Indenture have been authorized by our board of directors on May 10, 2021. The entry into the indenture an the giving of the Subsidiary Guarantees have been authorized by resolutions of the board of directors of each Subsidiary Guarantor dated May 10, 2021.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

No Material Adverse Change

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the Notes.

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected by holders of the Notes upon satisfactory proof of holding free of charge during normal business hours on any weekday (except public holidays) 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 last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the principal office of the Company.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream with the following Common Code and International Security Identification Number:

ISIN:	XS2343325622
Common Code:	234332562

Listing of the Notes

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the correctness of any statements made on opinions or reports contained in this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

INDEX TO FINANCIAL INFORMATION

Audited Financial Information as of and for the Year Ended December 31, 2020	2020 Annual Report⁽¹⁾
Independent Auditor’s Report	F-2 117
Consolidated Statement of Profit or Loss.	F-9 124
Consolidated Statement of Comprehensive Income	F-10 125
Consolidated Statement of Financial Position.	F-11 126
Consolidated Statement of Changes in Equity.	F-13 128
Consolidated Statement of Cash Flows	F-15 130
Notes to Financial Statements	F-17 132
Audited Financial Information as of and for the Year Ended December 31, 2019	2019 Annual Report⁽¹⁾
Independent Auditor’s Report	F-132 92
Consolidated Statement of Profit or Loss.	F-139 99
Consolidated Statement of Comprehensive Income	F-140 100
Consolidated Statement of Financial Position.	F-141 101
Consolidated Statement of Changes in Equity.	F-143 103
Consolidated Statement of Cash Flows	F-145 105
Notes to Financial Statements	F-147 107

Note:

- (1) Page references included in the independent auditors’ reports and the independent review report and the consolidated financial statements for each of the years ended December 31, 2020 and 2019 set forth below refer to pages in our annual reports for the years ended December 31, 2020 and 2019, as the case may be. Those annual reports are not incorporated by reference herein and do not form part of this offering memorandum. The audited consolidated financial statements have not been specifically prepared for the inclusion in this offering memorandum.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of KWG Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 124 to 246, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Revaluation of investment properties</i></p> <p>Investment properties of the Group are stated at fair value at the end of each reporting period, and comprise completed investment properties, investment properties under construction and right-of-use assets. Changes in fair values of investment properties are recorded in profit or loss for the year in which they arise. As at 31 December 2020, the carrying amount of investment properties of the Group was approximately RMB29,320,849,000.</p> <p>The Group's investment properties are revalued individually at the end of each reporting period by independent professional valuers. The revaluation involves significant estimations and assumptions, including market rent and capitalisation rates, and the fair values of the investment properties are sensitive to these management's estimates and assumptions.</p> <p>Relevant disclosures are included in notes 2.4, 3 and 15 to the consolidated financial statements.</p>	<p>The audit procedures we performed on the revaluation of investment properties included, among others, the following:</p> <ul style="list-style-type: none">• we obtained an understanding of the work of the independent professional valuers engaged by the Company, and considered the objectivity, independence and expertise of the valuers;• we involved our valuation specialists to evaluate the valuation techniques used and tested the underlying key estimations and assumptions for selected samples through enquiry with management and by reference to the historical information and open market information; and• we assessed the adequacy of the disclosures in relation to the revaluation of investment properties, including the fair value hierarchy and the valuation techniques used and the key inputs to the valuation of investment properties.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Recognition of revenue from the sale of properties over time</i>	
<p>Revenue from the sale of properties is recognised over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for the performance completed to date; otherwise, the revenue is recognised at a point in time when the buyer obtains control of the completed property. For the year ended 31 December 2020, revenue of the Group from the sale of properties was approximately RMB28,486,724,000, out of which approximately RMB2,806,281,000 was recognised over time.</p> <p>For the revenue from the sale of properties recognised over time, the Group considers whether it has the enforceable right to payment, which depends on the terms of the sales contracts and the interpretation of the applicable laws governing the sales contracts. Significant judgements were involved in determining whether the Group has the right to payment for the performance completed to date or not.</p> <p>In addition, the Group recognises revenue from the sale of properties by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs. Significant judgements and estimations are required in determining the accuracy of the estimated total costs and the contract costs incurred up to the end of the reporting period and the progress towards complete satisfaction of the performance obligation at the reporting date.</p>	<p>We performed the following audit procedures, among others, on the recognition of revenue from the sale of properties over time:</p> <ul style="list-style-type: none"> • we reviewed, on a sampling basis, the key terms of the sales contracts to assess the Group's rights to payment; • we checked, on a sampling basis, the revenue from the sale of properties recognised over time during the year to the supporting documents including sales contracts and proceeds received; • we evaluated management's basis for cost allocation by checking to the underlying contracts and saleable floor areas; • we checked the estimated total contract costs by comparing the estimated total contract costs to the budget approved by management;



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Recognition of revenue from sale of properties over time (continued)</i>	
Given the involvement of significant judgements and estimations, recognition of revenue from the sale of properties over time is considered a key audit matter.	<ul style="list-style-type: none">we checked the accuracy of the contract costs incurred up to the end of the reporting period by tracing, on a sampling basis, the costs incurred to the supporting documents;
Relevant disclosures are included in notes 2.4, 3 and 5 to the consolidated financial statements.	<ul style="list-style-type: none">we checked the mathematical accuracy of the computation of cost allocation and progress of completion of the properties; andwe assessed the adequacy of the disclosures in relation to the accounting policies and significant accounting judgements and estimates on the recognition of revenue from the sale of properties over time in the notes to the consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young

Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

25 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	29,742,063	23,941,953
Cost of sales		(20,383,239)	(16,496,001)
Gross profit		9,358,824	7,445,952
Other income and gains, net	5	1,628,096	2,853,736
Selling and marketing expenses		(1,222,410)	(1,006,430)
Administrative expenses		(1,560,784)	(1,550,993)
Other operating expenses, net		(2,981)	(4,456)
Fair value gains on investment properties, net	15	415,157	3,716,461
Finance costs	7	(1,034,243)	(1,530,985)
Share of profits and losses of:			
Associates		354,669	511,767
Joint ventures		2,126,580	2,933,397
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	10,062,908	13,368,449
Income tax expenses	10	(3,397,779)	(3,497,352)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		6,665,129	9,871,097
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11	236,180	184,987
Profit for the year		6,901,309	10,056,084
Attributable to:			
Owners of the Company		6,676,592	9,805,813
Non-controlling interests		224,717	250,271
		6,901,309	10,056,084
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic	13		
– For profit for the year		RMB210 cents	RMB309 cents
– For profit from continuing operations		RMB203 cents	RMB303 cents
Diluted			
– For profit for the year		RMB210 cents	RMB309 cents
– For profit from continuing operations		RMB203 cents	RMB303 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000 (Restated)
PROFIT FOR THE YEAR	6,901,309	10,056,084
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	1,329,793	(373,071)
Share of exchange differences on translation of joint ventures	579,194	(72,871)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	1,908,987	(445,942)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	728,917	(182,383)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	728,917	(182,383)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	2,637,904	(628,325)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	9,539,213	9,427,759
Attributable to:		
Owners of the Company	9,314,496	9,177,488
Non-controlling interests	224,717	250,271
	9,539,213	9,427,759

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	7,780,054	6,411,151
Investment properties	15	29,320,849	27,263,329
Land use rights	16	2,651,855	1,152,384
Interests in associates	18	5,338,823	4,670,441
Interests in joint ventures	19	46,872,043	42,996,460
Deferred tax assets	29	2,432,853	1,872,238
Other non-current assets		-	211,928
Total non-current assets		94,396,477	84,577,931
CURRENT ASSETS			
Properties under development	20	65,613,320	51,760,690
Completed properties held for sale	21	15,000,367	10,928,887
Trade receivables	22	1,914,579	2,166,759
Prepayments, other receivables and other assets	23	9,814,732	7,401,565
Due from a joint venture	19	30,004	30,062
Tax recoverables	24(a)	848,419	722,780
Restricted cash	25	3,944,716	5,356,141
Cash and cash equivalents	25	40,635,765	51,377,864
Total current assets		137,801,902	129,744,748
CURRENT LIABILITIES			
Trade and bills payables	26	13,165,515	9,072,301
Lease liabilities	17	209,341	230,445
Other payables and accruals	27	31,746,296	27,627,042
Due to joint ventures	19	35,207,964	37,742,306
Due to associates	18	3,244,654	1,345,495
Interest-bearing bank and other borrowings	28	25,255,339	23,728,043
Tax payables	24(b)	12,284,787	9,926,137
Total current liabilities		121,113,896	109,671,769
NET CURRENT ASSETS		16,688,006	20,072,979
TOTAL ASSETS LESS CURRENT LIABILITIES		111,084,483	104,650,910
NON-CURRENT LIABILITIES			
Lease liabilities	17	1,567,291	1,895,326
Interest-bearing bank and other borrowings	28	52,605,276	61,849,507
Deferred tax liabilities	29	2,993,183	2,661,444
Deferred revenue	30	2,042	2,042
Total non-current liabilities		57,167,792	66,408,319
NET ASSETS		53,916,691	38,242,591

Consolidated Statement of Financial Position

31 December 2020

	Note	2020 RMB'000	2019 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	304,474	304,148
Treasury shares	31	(1,723)	(176)
Reserves		43,232,126	35,490,786
		43,534,877	35,794,758
Non-controlling interests		10,381,814	2,447,833
TOTAL EQUITY		53,916,691	38,242,591

KONG Jianmin
Director

KONG Jiantao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the Company											Non-controlling interests	Total equity
	Notes	Issued capital	Treasury shares	Share premium account	Reserve funds	Exchange fluctuation reserve	Employee share-based compensation reserve	Asset revaluation reserve ^a	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	RMB'000	RMB'000	RMB'000
At 1 January 2019		303,909	(125)	3,653,876	1,597,904	(1,524,775)	28,776	29,175	(57,546)	24,786,247	28,817,441	2,993,445	31,810,886
Profit for the year		-	-	-	-	-	-	-	-	9,805,813	9,805,813	250,271	10,056,084
Other comprehensive loss for the year:													
Exchange differences on translation into presentation currency		-	-	-	-	(555,454)	-	-	-	-	(555,454)	-	(555,454)
Share of exchange differences on translation of joint ventures		-	-	-	-	(72,871)	-	-	-	-	(72,871)	-	(72,871)
Total comprehensive income for the year		-	-	-	-	(628,325)	-	-	-	9,805,813	9,177,488	250,271	9,427,759
Share-based compensation expenses		-	-	-	-	-	21,234	-	-	-	21,234	-	21,234
Contribution from the non-controlling shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	76,000	76,000
Acquisition of a subsidiary	35	-	-	-	-	-	-	-	-	-	-	4,195	4,195
Shares issued as scrip dividend during the year	31	63	-	5,263	-	-	-	-	-	-	5,326	-	5,326
Issue of treasury shares	31	176	(176)	-	-	-	-	-	-	-	-	-	-
Vested awarded shares transferred to employees	31	-	125	15,310	-	-	(15,435)	-	-	-	-	-	-
Transfer to reserves	33	-	-	-	388,329	-	-	-	-	(388,329)	-	-	-
Final 2018 dividend declared	31	-	-	(983,962)	-	-	-	-	-	-	(983,962)	-	(983,962)
Interim 2019 dividend	31	-	-	(1,020,309)	-	-	-	-	-	-	(1,020,309)	-	(1,020,309)
Derecognition of subsidiaries	36	-	-	-	-	-	-	-	-	-	-	(1,175,330)	(1,175,330)
Net gains on property revaluation		-	-	-	-	-	-	63,403	-	-	63,403	-	63,403
Acquisition of non-controlling interests		-	-	-	-	-	-	-	45,136	-	45,136	(278,402)	(233,266)
Changes in equity interests in subsidiaries without change of control		-	-	-	-	-	-	-	(330,999)	-	(330,999)	577,654	246,655
At 31 December 2019		304,148	(176)	1,670,178	1,986,233	(2,153,100)	34,575	92,578	(343,409)	34,203,731	35,794,758	2,447,833	38,242,591

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

Notes	Attributable to owners of the Company												
	Issued capital	Treasury shares	Share premium account	Reserve funds	Exchange fluctuation reserve	Employee share-based compensation reserve	Asset revaluation reserve [#]	Capital reserve	Retained profits	Total	Non-controlling interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020	304,148	(176)	1,670,178	1,986,233	(2,153,100)	34,575	92,578	(343,409)	34,203,731	35,794,758	2,447,833	38,242,591	
Profit for the year	-	-	-	-	-	-	-	-	6,676,592	6,676,592	224,717	6,901,309	
Other comprehensive income for the year:													
Exchange differences on translation into presentation currency	-	-	-	-	2,058,710	-	-	-	-	2,058,710	-	2,058,710	
Share of exchange differences on translation of joint ventures	-	-	-	-	579,194	-	-	-	-	579,194	-	579,194	
Total comprehensive income for the year	-	-	-	-	2,637,904	-	-	-	6,676,592	9,314,496	224,717	9,539,213	
Share options exercised	31	35	-	4,724	-	-	(807)	-	-	3,952	-	3,952	
Share-based compensation expenses	-	-	-	-	-	19,487	-	-	-	19,487	-	19,487	
Contribution from the non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	3,096,329	3,096,329	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	1,200,244	1,200,244	
Issue of treasury shares	31	207	(207)	-	-	-	-	-	-	-	-	-	
Vested awarded shares transferred to employees	31	-	174	19,251	-	-	(19,425)	-	-	-	-	-	
Transfer to reserves	33	-	-	-	815,593	-	-	-	(815,593)	-	-	-	
Shares issued as scrip dividend during the year	31	84	-	11,817	-	-	-	-	-	11,901	-	11,901	
Final 2019 dividend declared	31	-	-	(1,334,360)	-	-	-	-	-	(1,334,360)	-	(1,334,360)	
Interim 2020 dividend	31	-	-	(371,610)	-	-	-	-	(899,610)	(1,271,220)	-	(1,271,220)	
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(14,392)	-	(14,392)	(43,716)	(58,108)	
Changes in equity interests in subsidiaries without change of control	-	-	-	-	-	-	-	1,386,795	-	1,386,795	3,672,017	5,058,812	
Distribution in specie	11	-	-	-	-	-	-	-	(375,026)	(375,026)	(14,050)	(389,076)	
Share repurchase	31	-	(1,514)	-	-	-	-	-	-	(1,514)	-	(1,514)	
Dividend declared to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,560)	(201,560)	
At 31 December 2020		304,474	(1,723)	-*	2,801,826*	484,804*	33,830*	92,578*	1,028,994*	38,790,094*	43,534,877	10,381,814	53,916,691

[#] The asset revaluation reserve arose from the gains on properties revaluation as a result of the change in use from owner-occupied properties to investment properties.

* These reserve accounts comprise the consolidated reserves of approximately RMB43,232,126,000 (2019: approximately RMB35,490,786,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		10,062,908	13,368,449
From a discontinued operation	11	327,547	250,604
Adjustments for:			
Finance costs		1,034,495	1,531,336
Foreign exchange losses/(gains)		311,642	(96,405)
Share of profits and losses of associates		(356,175)	(513,706)
Share of profits and losses of joint ventures		(2,126,580)	(2,933,397)
Interest income		(712,399)	(949,330)
Share-based compensation expenses		19,487	21,234
Loss on disposal of items of property, plant and equipment		16,667	314
Depreciation		280,681	252,059
Amortisation of land use rights	6	11,197	11,038
Fair value gains on investment properties, net	15	(415,157)	(3,716,461)
Gains on derecognition of subsidiaries		(454,765)	(691,361)
Gain on acquisition of a joint venture		-	(129,350)
Gain on disposal of a joint venture		-	(134,095)
Gains on acquisition of subsidiaries		(326,054)	(791,218)
		7,673,494	5,479,711
Increase in properties under development		(19,488,730)	(28,669,391)
Decrease in completed properties held for sale		15,964,309	15,142,940
Increase in trade receivables		(4,757)	(1,195,530)
Decrease in prepayments, other receivables and other assets		16,328,216	4,830,168
Decrease in an amount due from a joint venture		58	7
Decrease/(increase) in restricted cash		1,410,782	(1,256,812)
Increase in trade and bills payables		136,489	3,248,855
(Decrease)/increase in other payables and accruals		(19,991,040)	5,797,926
		2,028,821	3,377,874
Cash generated from operations		2,028,821	3,377,874
Interest received		712,399	835,236
Corporate income tax paid		(953,116)	(427,781)
Land appreciation tax paid		(657,304)	(743,729)
		1,130,800	3,041,600
Net cash flows from operating activities		1,130,800	3,041,600

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Net cash flows from operating activities		1,130,800	3,041,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(1,179,557)	(780,809)
Purchases of items of land use rights		(888,653)	-
Purchases of items of investment properties		(1,307,918)	(1,818,657)
Acquisitions of subsidiaries		1,157,752	81,443
Investments in joint ventures		(222,500)	(1,009,058)
Acquisitions of joint ventures		-	(1,970,065)
Investments in associates		(1,134,900)	(781,280)
Derecognition of subsidiaries		(45,934)	(1,180,585)
Disposals of joint ventures		333,884	598,485
Proceeds from disposal of items of property, plant and equipment		1,737	11,018
Repayments from associates		2,177,569	849,858
Advance to joint ventures		(3,924,425)	(6,494,211)
Dividend received from joint ventures		1,288,166	893,351
Net cash flows used in investing activities		(3,744,779)	(11,600,510)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of senior notes		6,131,828	10,152,399
Proceeds from sale of domestic corporate bonds		4,476,990	3,670,000
Acquisitions of non-controlling interests		(58,108)	(43,171)
Changes in equity interests in subsidiaries without change of control		5,058,812	246,655
Domestic corporate bonds repurchased		(1,745,179)	(5,537,000)
Senior notes repurchased		(160,514)	-
Shares repurchased	31	(1,514)	-
New bank loans		17,742,525	22,076,517
Repayment of senior notes		(3,617,285)	(4,067,039)
Repayment of domestic corporate bonds		(3,630,000)	-
Redemption of domestic corporate bonds		(3,670,000)	(530,000)
Repayment of bank loans		(21,596,140)	(10,620,168)
Repayment of lease liabilities		(265,061)	(118,490)
Contribution from the non-controlling shareholders of subsidiaries		2,373,635	76,000
Dividend paid		(2,538,768)	(1,767,425)
Interest paid		(5,652,984)	(6,251,802)
Share options exercised		3,952	-
Net cash distributed in respect of distribution in specie	11	(661,036)	-
Net cash flows (used in)/from financing activities		(7,808,847)	7,286,476
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,422,826)	(1,272,434)
Cash and cash equivalents at beginning of year		51,377,864	52,577,643
Effect of foreign exchange rate changes, net		(319,273)	72,655
CASH AND CASH EQUIVALENTS AT END OF YEAR		40,635,765	51,377,864
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		21,359,698	24,047,048
Non-pledged time deposits with original maturity of less than three months when acquired	25	19,276,067	27,330,816
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	25	40,635,765	51,377,864

Notes to Financial Statements

31 December 2020

1. Corporate and Group Information

KWG Group Holdings Limited (the “Company”) was a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were involved in the following principal activities from continuing operations:

- Property development
- Property investment
- Hotel operation

The discontinued operation of the Group was involved in the provision of property management services through KWG Living Group Holdings Limited (“KWG Living”), which was spun off by the Group for separate listing on the Main Board of the Stock Exchange of Hong Kong Limited on 30 October 2020.

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which was incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Boom Faith International Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$100	–	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Hugeluck Investments Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Guangzhou Hejing Holdings Limited (“Guangzhou Hejing”)**	PRC/Mainland China	RMB2,000,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited†	PRC/Mainland China	US\$12,930,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Hejing Yingfu Real Estate Development Limited [#]	PRC/Mainland China	RMB35,000,000	–	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited [#]	PRC/Mainland China	RMB1,616,327,000	–	100	Property investment
Guangzhou Zhongtianying Real Estate Development Limited [#]	PRC/Mainland China	US\$404,082,000	–	100	Property development
Guangzhou Tianjian Real Estate Development Limited ("Guangzhou Tianjian") [#]	PRC/Mainland China	RMB3,300,000,000	–	100	Property development
Guangzhou Junzhao Property Operation Limited [#]	PRC/Mainland China	RMB279,592,000	–	100	Property investment
Chengdu Zhongtianying Real Estate Development Limited [#]	PRC/Mainland China	RMB550,000,000	–	100	Property development
Guangzhou Liangyu Investment Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Hainan New World Real Estate Property (HK) Limited [#]	PRC/Mainland China	HK\$1,575,510,000	–	100	Property development
Suzhou Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB1,290,000,000	–	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited [#]	PRC/Mainland China	US\$202,041,000	–	100	Property development
Beijing Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB70,000,000	–	100	Property development
Chengdu Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	HK\$1,565,306,000	–	100	Property development
Kunshan Baicheng Real Estate Development Limited [#]	PRC/Mainland China	US\$61,020,000	–	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited [#]	PRC/Mainland China	RMB330,000,000	–	100	Property development
Guangzhou Lihe Property Development Limited [#]	PRC/Mainland China	RMB640,000,000	–	100	Property development
Chengdu Kaiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hainan Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB300,000,000	–	100	Property development
Shanghai Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development

Notes to Financial Statements

31 December 2020

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Deyu Real Estate Development Limited ("Shanghai Deyu") [#]	PRC/Mainland China	RMB196,080,000	–	51	Property development
Shanghai Jinyi Property Limited [#]	PRC/Mainland China	RMB30,000,000	–	51	Property development
Shanghai Hongyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Beijing Hong'en Real Estate Development Limited Liability Company [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Shanghai Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB196,080,000	–	51	Property development
Guangzhou Chuangjing Real Estate Development Limited**	PRC/Mainland China	US\$41,500,000	–	100	Property development
Suzhou Junjing Real Estate Development Limited [#]	PRC/Mainland China	RMB185,000,000	–	100	Property development
Shanghai Langhe Real Estate Development Limited* [#]	PRC/Mainland China	RMB1,739,220,000	–	51	Property development
Shanghai Jingdong Real Estate Development Limited [#]	PRC/Mainland China	RMB1,350,000,000	–	75.5	Property development
Guangzhou Hejing Fengjingyuan Hotel Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Guangzhou Hejing Lingfengyuan Hotel Management Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Suzhou Shengjing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	80	Property development
Suzhou Kaiwei Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Guangzhou Weiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB60,000,000	–	100	Property development
Suzhou Kaifu Real Estate Development Limited [#]	PRC/Mainland China	RMB170,000,000	–	100	Property development
Guangzhou Hongda Property Limited [#]	PRC/Mainland China	RMB1,300,000,000	–	100	Property development
Beijing Fuyu Real Estate Development Limited [#]	PRC/Mainland China	RMB20,000,000	–	100	Property development
Hangzhou Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	51	Property development
Beijing Hongtai Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Hengcheng Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hangzhou Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	51	Property development
Hangzhou Hongjun Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	100	Property development
Sichuan Longyuan Property Limited [#]	PRC/Mainland China	RMB325,016,300	–	55	Property development
Hangzhou Tianjing Real Estate Development Limited [#]	PRC/Mainland China	RMB240,000,000	–	100	Property development
Suzhou Yujing Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hefei Rongze Real Estate Development Limited [#]	PRC/Mainland China	RMB450,000,000	–	80	Property development
Linhai Jinxuan Real Estate Development Limited [#]	PRC/Mainland China	RMB850,000,000	–	100	Property development
Suzhou Kaijun Real Estate Development Limited [#]	PRC/Mainland China	RMB430,000,000	–	100	Property development
Hubei Jinkaida Property Limited [#]	PRC/Mainland China	RMB50,000,000	–	60	Property development
Suzhou Dongshanshu Real Estate Development Limited ^{#*}	PRC/Mainland China	US\$24,490,000	–	100	Property development
Taicang Hongtao Real Estate Development Limited [#]	PRC/Mainland China	RMB750,000,000	–	66.7	Property development
Guangxi Kairui Property Limited [#]	PRC/Mainland China	RMB350,000,000	–	100	Property development
Hangzhou Hongsheng Real Estate Development Limited [#]	PRC/Mainland China	RMB950,000,000	–	100	Property development
Jiangmen Zhan'gao Property Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Hangzhou Jinxuan Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	60	Property development
Qidong Tianhui Real Estate Development Limited [#]	PRC/Mainland China	RMB500,000,000	–	70	Property development
Longmen Dongjun Huafu Education Industry Development Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Meishan Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB380,000,000	–	100	Property development
Guangzhou Yufa Plastic Limited [#]	PRC/Mainland China	RMB5,000,000	–	65	Property development

Notes to Financial Statements

31 December 2020

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Linhai Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Jiangmen Tianjing Property Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Jiashan Xujing Property Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	100	Property development
Suzhou Kaiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB400,000,000	–	100	Property development
Beijing Yujing Real Estate Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	51	Property development
Guangzhou Hongtao Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Guangzhou Xiangjing Property Development Limited [#]	PRC/Mainland China	RMB60,000,000	–	60	Property development
Hangzhou Hongli Real Estate Development Limited [#]	PRC/Mainland China	RMB300,000,000	–	100	Property development
Linhai Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB273,600,000	–	100	Property development
Tianjin Guangying Real Estate Development Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Wuzhou Qidi Hongxing Hejing Investment Limited [#]	PRC/Mainland China	RMB10,000,000	–	75	Property development
Xian Junjing Property Development Limited [#]	PRC/Mainland China	RMB20,000,000	–	100	Property development
Beijing Yijing Real Estate Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	100	Property development
Guangzhou Guanda Property Development Limited [#]	PRC/Mainland China	RMB74,990,000	–	60	Property development
Guangzhou Zhangao Property Development Limited [#]	PRC/Mainland China	RMB700,000,000	–	70	Property development
Huanan Yigu Technological Development (Guangzhou) Limited [#]	PRC/Mainland China	RMB200,000,000	–	80	Property development
Shanghai Yaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	90	Property development
Guangxi Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Guangxi Hejing Hengfu Investment Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Guangxi Hejing Shengyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hefei Hongtao Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Hangzhou Huixuan Limited [#]	PRC/Mainland China	RMB100,000,000	–	76.74	Property development
Suzhou Zhuoyu Real Estate Development Limited [#]	PRC/Mainland China	RMB795,000,000	–	51	Property development
Guangzhou Zhuoyu Property Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

^ These entities are registered as Chinese-foreign joint ventures under PRC law.

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 Basis of Preparation *(continued)*

Basis of consolidation *(continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the dates on which the Group obtains control, and continue to be consolidated until the dates that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary; (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The Company has set up a trust (the "Trust") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme (the "Share Award Scheme") adopted on 19 January 2018. The Group has the power to govern the financial and operating policies of the Trust and derive benefits from the services of the employees who have been awarded the awarded shares through their continued employment with the Group. The assets and liabilities of the Trust are included in the consolidated statement of financial position and the shares held by the Trust are presented as a deduction in equity as shares held for the Share Award Scheme.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 Changes in Accounting Policies and Disclosures *(continued)*

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any significant impact on the financial position and performance of the Group.
- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

The Group has changed its accounting policy of the classification of the interest paid in the consolidated statement of cash flows from operating activities to financing activities during the current year (the "Policy Change") so as to provide reliable and more relevant information of cash flows generated from financial liabilities. In the opinion of the directors of the Company, it is more appropriate to reflect all cash flows of the Group's borrowings as financing activities in the consolidated statement of cash flows and the Policy Change can result in a consistent presentation which is beneficial to users of the financial statements to understand all the related cash flows of the same financial liabilities and provides more comparable information with industry peers.

Set out below are the amounts by which each financial statement line item was affected for the years ended 31 December 2020 and 2019 as a result of the Policy Change:

	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest paid	5,652,984	6,251,802
Increase in cash flows related to operating activities	5,652,984	6,251,802
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(5,652,984)	(6,251,802)
Decrease in cash flows related to financing activities	(5,652,984)	(6,251,802)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	-	-

2.2 Changes in Accounting Policies and Disclosures *(continued)*

The adoption of the Policy Change has had no impact on the consolidated statements of profit or loss, comprehensive income, financial position and changes in equity.

2.3 Issued but not yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{3, 6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{3, 5}</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group consider that, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and OCI of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated OCI, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 Summary of Significant Accounting Policies *(continued)*

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of Significant Accounting Policies *(continued)*

Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies *(continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings (excluding the right-of-use assets)	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Vehicles (excluding the right-of-use assets)	7% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period.

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

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.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. For a transfer from properties under development or completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Property management contracts acquired in business combinations are recognised at fair value at the acquisition date. The property management contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives of the contracts.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets (relate to the land use rights and property, plant and equipment) are measured at cost, less any accumulated depreciation and amortisation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated and amortised on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	17 to 40 years
Buildings	2 to 19 years
Vehicle	15 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 Summary of Significant Accounting Policies *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(a) Right-of-use assets (continued)

When the right-of-use assets relate to interests in leasehold land held as properties under development and completed properties held for sale, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "property under development" and "completed properties held for sale". When a right-of-use asset meets the definition of investment property (e.g., long-term rental apartments), it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 Summary of Significant Accounting Policies *(continued)*

Leases *(continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

For debt investments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to the statement of profit or loss.

Financial assets designated at fair value through OCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through OCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity investments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

In certain cases, the Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, lease liabilities, other payables and accruals, amounts due to joint ventures, amounts due to associates and interest-bearing bank and other borrowings.

2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, lease liabilities and interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.4 Summary of Significant Accounting Policies *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in OCI or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

2.4 Summary of Significant Accounting Policies *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of properties

Revenue is 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;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the 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 purchaser obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of each reporting period as a percentage of total estimated costs for each contract.

For a property development and sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has the present right to payment and the collection of the consideration is probable.

(b) Operation of hotels

Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised when the services are rendered.

2.4 Summary of Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(c) *Property management services*

Property management service income derived from the provision of property maintenance and 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.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Management fee income is recognised when the related management services have been provided.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as properties under development, completed properties held for sale, investment properties, property, plant and equipment and land use rights, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

2.4 Summary of Significant Accounting Policies *(continued)*

Share-based payments

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value was determined by an external valuer using the binomial model (the "Model"), further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award, and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of Significant Accounting Policies *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 12 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies

The Company's functional currency is the Hong Kong dollar while the presentation currency of these financial statements is RMB. In the opinion of the directors, as the Group's operations are mainly in Mainland China, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and joint ventures not operating in Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities and the Company are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in OCI and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

Revenue from the sale of properties is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue is recognised at a point in time when the buyer obtains control of the completed property. The Group may not change or substitute the property unit or redirect the property unit for another use due to the contractual restrictions with the customer and thus the property unit does not have an alternative use to the Group. However, whether there is an enforceable right to payment depends on the terms of the sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgements. The Group has obtained legal counsel opinion regarding the enforceability of the right to payment for sales contracts. Management uses judgements, based on legal counsel opinion, to classify sales contracts into those with the right to payment and those without the right.

3. Significant Accounting Judgements and Estimates *(continued)*

Judgements *(continued)*

Transfer from properties under development, completed properties held for sale, property, plant and equipment and land use rights to investment properties

Properties under development, completed properties held for sale, property, plant and equipment and land use rights are transferred to investment properties when there is a change in use with sufficient evidence. The Group determines whether a change in use has occurred based on assessment of all relevant facts and circumstances, which include but are not limited to: (a) a business plan that reflects the future rental income generated by the property; (b) the resources to hold and manage an investment property; (c) legal permissibility for the change in use; and (d) the commencement of development if the property requires further development for the change in use. Any excess of fair value over the original carrying amount of such properties at the date of transfer was recognised immediately in the consolidated statement of profit or loss or the consolidated statement of financial position. During the year ended 31 December 2020, properties under development and completed properties held for sale with total carrying amounts approximately RMB315,717,000 (2019: approximately RMB2,096,993,000) and approximately RMB313,191,000 (2019: approximately RMB516,282,000), respectively, were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB49,283,000 (2019: approximately RMB1,378,007,000) and approximately RMB138,186,000 (2019: approximately RMB284,991,000), respectively, in the consolidated statement of profit or loss. During the year ended 31 December 2020, no property, plant and equipment and land use rights were transferred to investment properties due to a change in use. During the year ended 31 December 2019, property, plant and equipment and land use rights with total carrying amounts approximately RMB131,806,000 and approximately RMB10,848,000, respectively, were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB78,112,000 and approximately RMB6,426,000, respectively, in the consolidated statement of financial position.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the management of the Group has reviewed the Group's investment properties and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

Accordingly, the Group recognises deferred tax in respect of the changes in fair value of the investment properties based on management's best estimate assuming future tax consequences through usage of such properties for rental purposes, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment properties be subsequently disposed of by the Group, rather than all of the economic benefits embodied in the investment properties are consumed substantially by leasing over time. In the event that the investment properties are disposed of, the Group may be liable to higher tax upon disposal considering the impact of corporate income tax ("CIT") and land appreciation tax ("LAT").

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Revenue recognition

The Group recognises property development revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of each reporting period as a percentage of total estimated costs for the property unit in the contract. Significant judgements and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Changes in cost estimates in future periods can affect the Group's revenue recognised.

Revaluation of investment properties

Investment properties including completed investment properties, investment properties under construction and right-of-use assets are revalued at the end of each reporting period based on the market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information about market rent and capitalisation rates is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used. The carrying amount of the Group's investment properties at 31 December 2020 was approximately RMB29,320,849,000 (31 December 2019: approximately RMB27,263,329,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

Estimation of net realisable value of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is determined by the Group with reference to the prevailing market conditions and prices existing at the end of each reporting period. As at 31 December 2020, the carrying amounts of properties under development and completed properties held for sale were approximately RMB65,613,320,000 (2019: approximately RMB51,760,690,000) and approximately RMB15,000,367,000 (2019: approximately RMB10,928,887,000), respectively.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

CIT

The Group is subject to CIT in the PRC. As certain matters relating to the CIT have not been confirmed by the local tax bureau, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and tax provision in the period in which the differences realise.

Provision for ECLs on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by service type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the property development sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

PRC LAT

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2020 was approximately RMB593,126,000 (2019: approximately RMB361,932,000). The amount of unrecognised tax losses at 31 December 2020 was approximately RMB1,115,700,000 (31 December 2019: approximately RMB1,144,911,000). Further details are contained in note 29 to the financial statements.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

4. Operating Segment Information

For management purposes, the Group is organised into three reportable operating segments as follows:

- (a) Property development: Sale of properties
- (b) Property investment: Leasing of properties
- (c) Hotel operation: Operation of hotels

Upon the spin-off of KWG Living on 30 October 2020, which was previously the reportable segment of property management, the Group has the remaining three reportable segments of property development, property investment and hotel operation.

The property development projects undertaken by the Group during the year were mainly located in Mainland China and Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverables, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

Other than the segment information disclosed above, the directors considered that other segment information is not reportable segment information used by the chief operating decision makers of the Group.

The Group's revenue from external customers is derived solely from its operations in Mainland China. As the Group's major operations and customers are located in Mainland China, no further geographical information is provided.

During 2020 and 2019, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. Operating Segment Information *(continued)*

Year ended 31 December 2020

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers and revenue from continuing operations	28,486,724	801,073	454,266	29,742,063
Segment results	9,799,253	1,011,601	88,011	10,898,865
<i>Reconciliation:</i>				
Interest income and unallocated income				1,628,096
Unallocated expenses				(1,429,810)
Finance costs				(1,034,243)
Profit before tax				10,062,908
Income tax expenses				(3,397,779)
Profit for the year from continuing operations				6,665,129
Assets and liabilities:				
Segment assets	137,693,897	29,439,790	9,578,657	176,712,344
<i>Reconciliation:</i>				
Corporate and other unallocated assets				55,486,035
Total assets				232,198,379
Segment liabilities	132,995,633	68,844	41,440	133,105,917
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				45,175,771
Total liabilities				178,281,688
Other segment information:				
Depreciation and amortisation	95,558	33,876	156,909	286,343
Fair value gains on investment properties, net	-	415,157	-	415,157
Share of profits and losses of:				
Associates	354,669	-	-	354,669
Joint ventures	2,126,580	-	-	2,126,580
Interests in associates	5,338,823	-	-	5,338,823
Interests in joint ventures	46,872,043	-	-	46,872,043

Notes to Financial Statements

31 December 2020

4. Operating Segment Information *(continued)*

Year ended 31 December 2019 (Restated)

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers and revenue from continuing operations	22,761,946	626,909	553,098	23,941,953
Segment results				
	9,189,911	4,174,760	188,160	13,552,831
<i>Reconciliation:</i>				
Interest income and unallocated income				2,853,736
Unallocated expenses				(1,507,133)
Finance costs				(1,530,985)
Profit before tax				13,368,449
Income tax expenses				(3,497,352)
Profit for the year from continuing operations				9,871,097
Assets and liabilities:				
Segment assets	114,809,168	27,377,879	6,755,802	148,942,849
<i>Reconciliation:</i>				
Corporate and other unallocated assets				64,918,042
Assets related to a discontinued operation				461,788
Total assets				214,322,679
Segment liabilities	127,475,598	57,318	20,021	127,552,937
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				48,520,552
Liabilities related to a discontinued operation				6,599
Total liabilities				176,080,088
Other segment information:				
Depreciation and amortisation	91,491	13,922	149,145	254,558
Fair value gains on investment properties, net	–	3,716,461	–	3,716,461
Share of profits and losses of:				
Associates	511,767	–	–	511,767
Joint ventures	2,933,397	–	–	2,933,397
Interests in associates	4,670,441	–	–	4,670,441
Interests in joint ventures	42,996,460	–	–	42,996,460

5. Revenue, Other Income and Gains, Net

An analysis of revenue, other income and gains, net is as follows:

	2020 RMB'000	2019 RMB'000 (Restated)
Revenue:		
Revenue from contracts with customers		
Sale of properties	28,486,724	22,761,946
Hotel operation income	454,266	553,098
Revenue from other sources		
Gross rental income	801,073	626,909
	29,742,063	23,941,953
Other income and gains, net:		
Interest income	711,830	947,920
Management fee income	420,140	366,105
Others	496,126	1,539,711
	1,628,096	2,853,736

Notes to Financial Statements

31 December 2020

5. Revenue, Other Income and Gains, Net *(continued)*

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2020

	Property development RMB'000	Hotel operation RMB'000	Total continuing operations RMB'000
<i>Type of revenue recognition:</i>			
Sale of properties	28,486,724	-	28,486,724
Provision of services	-	454,266	454,266
Total revenue from contracts with customers	28,486,724	454,266	28,940,990
<i>Timing of revenue recognition:</i>			
Recognised at a point in time	25,680,443	-	25,680,443
Recognised over time	2,806,281	454,266	3,260,547
Total revenue from contracts with customers	28,486,724	454,266	28,940,990

For the year ended 31 December 2019 (Restated)

	Property development RMB'000	Hotel operation RMB'000	Total continuing operations RMB'000
<i>Type of revenue recognition:</i>			
Sale of properties	22,761,946	-	22,761,946
Provision of services	-	553,098	553,098
Total revenue from contracts with customers	22,761,946	553,098	23,315,044
<i>Timing of revenue recognition:</i>			
Recognised at a point in time	19,517,733	-	19,517,733
Recognised over time	3,244,213	553,098	3,797,311
Total revenue from contracts with customers	22,761,946	553,098	23,315,044

5. Revenue, Other Income and Gains, Net *(continued)*

Revenue from contracts with customers *(continued)*

(i) *Disaggregated revenue information (continued)*

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of properties	13,537,720	7,576,826

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of properties

The performance obligation is satisfied upon delivery of the properties and payment in advance is normally required; or over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Hotel operation services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of hotel operation services and customer acceptance.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and 31 December 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	10,621,376	16,613,703
More than one year	8,068,666	3,762,822
	18,690,042	20,376,525

The amounts of transaction prices allocated to the remaining performance obligations expected to be recognised in more than one year relate to sale of properties, of which the performance obligations are to be satisfied within 18 months. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

Notes to Financial Statements

31 December 2020

6. Profit Before Tax

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
Cost of properties sold		19,940,512	16,101,134
Impairment of completed properties held for sale included in cost of sales		100,000	–
Less: Government grant released*	27(a)	(45)	(261)
		20,040,467	16,100,873
Cost of services provided		342,772	395,128
Depreciation		275,146	243,520
Amortisation of land use rights	16	63,966	34,018
Less: Amount capitalised in assets under construction		(52,769)	(22,980)
		11,197	11,038
Lease payments not included in the measurement of lease liabilities	17	5,048	8,271
Auditor's remuneration		5,400	5,150
Employee benefit expenses** (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		1,255,626	1,056,551
Share-based compensation expenses		18,317	18,858
Pension scheme contributions (defined benefit plans)		21,763	102,254
		1,295,706	1,177,663
Less: Amounts capitalised in assets under construction, properties under development and investment properties under development		(477,275)	(492,318)
		818,431	685,345
Foreign exchange differences, net [^]		311,642	(96,405)
Loss on disposal of items of property, plant and equipment***		16,557	314
Direct operating expenses (including repairs and maintenance arising on rent-earning investment properties)		49,588	43,765

* There are no unfulfilled conditions or contingencies relating to this government grant.

** Employee benefit expenses are included in "Selling and marketing expenses" and "Administrative expenses" in the consolidated statement of profit or loss.

*** The item is included in "Administrative expenses" in the consolidated statement of profit or loss.

[^] The item is included in "Other income and gains, net" in the consolidated statement of profit or loss.

7. Finance Costs

An analysis of the Group's finance costs from continuing operations is as follows:

	Note	2020 RMB'000	2019 RMB'000 (Restated)
Interest on bank and other borrowings		5,815,543	6,209,762
Interest on lease liabilities	17	123,896	127,911
Less: Interest capitalised		(4,905,196)	(4,806,688)
		1,034,243	1,530,985

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	5,437	6,006
Other emoluments:		
Salaries, allowances and benefits in kind	11,670	14,478
Share-based compensation expenses	1,170	2,376
Pension scheme contributions	91	245
	12,931	17,099
	18,368	23,105

There were no directors and chief executive being granted share options during the year (2019: Nil).

During the year, certain directors were granted awarded shares, in respect of their services to the Group, under the Share Award Scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. Directors' and Chief Executive's Remuneration *(continued)***(a) Independent non-executive directors**

	Fees RMB'000
2020	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	438
Mr. Tam Chun Fai	438
Mr. Li Bin Hai	438
	1,314
2019	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	466
Mr. Tam Chun Fai	466
Mr. Li Bin Hai	466
	1,398

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. Directors' and Chief Executive's Remuneration *(continued)*

(b) Executive directors and chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based compensation expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Mr. Kong Jianmin	1,262	3,500	-	23	4,785
Mr. Kong Jiantao (note (i))	1,262	3,500	-	23	4,785
Mr. Kong Jiannan	1,262	3,718	-	23	5,003
Mr. Cai Fengjia	337	952	1,170	22	2,481
	4,123	11,670	1,170	91	17,054
2019					
Executive directors:					
Mr. Kong Jianmin	1,344	3,502	-	56	4,902
Mr. Kong Jiantao (note (i))	1,344	3,551	-	56	4,951
Mr. Kong Jiannan	1,344	3,642	-	56	5,042
Mr. Tsui Kam Tim (note (ii))	219	2,788	939	21	3,967
Mr. Cai Fengjia	357	995	1,437	56	2,845
	4,608	14,478	2,376	245	21,707

Notes:

(i) Mr. Kong Jiantao is also the chief executive officer of the Company.

(ii) Resigned on 12 August 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees for the year ended 31 December 2020 included three (2019: three) directors and the chief executive, details of whose remuneration are set out in note 8.

Details of the remuneration for the year ended 31 December 2020 of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Fees	-	219
Salaries, allowances and benefits in kind	7,850	8,731
Share-based compensation expenses	3,132	2,542
Pension scheme contributions	55	92
	11,037	11,584

The number of non-director and non-chief executive highest paid employees whose emoluments fell within the following bands are as follows:

	Number of employees	
	2020	2019
HKD5,000,001 to HKD5,500,000	1	-
HKD5,500,001 to HKD6,000,000	-	1
HKD7,000,001 to HKD7,500,000	-	1
HKD8,000,001 to HKD8,500,000	1	-

During the year, awarded shares were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

There were no non-director and non-chief executive highest paid employees being granted share options during the year (2019: Nil).

10. Income Tax Expenses

	Note	2020 RMB'000	2019 RMB'000 (Restated)
Current – PRC			
CIT		2,139,296	1,728,629
LAT		1,752,468	1,008,773
Deferred		3,891,764 (493,985)	2,737,402 759,950
Total tax charge for the year from continuing operations		3,397,779	3,497,352
Total tax charge for the year from a discontinued operation	11	91,367	65,617
		3,489,146	3,562,969

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax charge for the year, is as follows:

	Note	2020 RMB'000	2019 RMB'000
Profit before tax from continuing operations		10,062,908	13,368,449
Profit before tax from a discontinued operation	11	327,547	250,604
		10,390,455	13,619,053
Tax at the statutory tax rate of 25.0% (2019: 25.0%)		2,597,614	3,404,763
Income not subject to tax		(19,618)	(61,770)
Expenses not deductible for tax		227,002	372,497
Tax losses not recognised		18,018	131,309
Profits and losses attributable to associates		(89,044)	(128,427)
Profits and losses attributable to joint ventures		(531,645)	(733,349)
LAT		1,752,468	1,008,773
Effect of LAT		(438,117)	(252,193)
Tax effect of verification collection		(11,037)	(25,817)
Others		(16,495)	(152,817)
Tax charge for the year at the Group's effective rate		3,489,146	3,562,969
Tax charge for the year from continuing operations		3,397,779	3,497,352
Tax charge for the year from a discontinued operation		91,367	65,617

10. Income Tax Expenses *(continued)*

For the year ended 31 December 2020, the share of CIT expenses and LAT expenses attributable to the joint ventures amounting to approximately RMB788,643,000 (2019: approximately RMB1,022,127,000) and approximately RMB689,070,000 (2019: approximately RMB737,889,000), respectively, is included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

For the year ended 31 December 2020, the share of CIT expenses and LAT expenses attributable to the associates amounting to approximately RMB119,358,000 (2019: approximately RMB171,235,000) and approximately RMB10,894,000 (2019: approximately RMB68,507,000), respectively, is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2020 and 2019.

PRC CIT

PRC CIT in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2020 and 2019, based on existing legislation, interpretations and practices in respect thereof.

PRC LAT

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Discontinued Operation

On 7 October 2020, the Company announced the decision of its board of directors in relation to the conditional special dividend to be satisfied by way of a distribution in specie (the "Distribution") of an aggregate of 1,589,025,505 shares of KWG Living, the Company's then non-wholly-owned subsidiary, to the Company's shareholders (the "Qualifying KWG Shareholders"), subject to the completion of the spin-off and separate listing of KWG Living on the Main Board of The Stock Exchange of Hong Kong Limited. On 30 October 2020 (the "Distribution Date"), in connection with the listing of KWG Living, all the issued share capital of KWG Living held by the Company was distributed to the Qualifying KWG Shareholders. Since then, the Company did not retain any interest in the issued share capital of KWG Living and KWG Living became a fellow subsidiary of the Company.

11. Discontinued Operation *(continued)*

KWG Living and its subsidiaries (collectively KWG Living Group) are engaged in providing property management services. In accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of KWG Living Group before the spin-off have been presented as a discontinued operation in the consolidated statement of profit or loss since it represented a separate major line of business. The comparative figures for the consolidated statement of profit or loss have been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period.

The net assets of KWG Living Group at the Distribution Date were as follows:

	Notes	RMB'000
Property, plant and equipment	14	11,240
Investment in an associate		7,549
Deferred tax assets		19,194
Other non-current assets		205,017
Trade receivables		455,127
Prepayments, other receivables and other assets		224,223
Restricted cash		643
Cash and cash equivalents		661,036
Trade and bills payables		(174,634)
Other payables and accruals		(911,768)
Lease liabilities	17	(6,684)
Tax payables		(84,442)
Deferred tax liabilities		(17,425)
Net assets directly associated with KWG Living Group		389,076
Non-controlling interests		(14,050)
Carrying value of net assets attributable to owners of the Company		375,026
Represented by:		
Distribution to the Qualifying KWG shareholders		375,026
An analysis of the net outflow of cash and cash equivalents in respect of the Distribution is as follows:		
Cash proceeds on the Distribution		-
Cash and cash equivalents of KWG Living Group as at the Distribution Date		(661,036)
Net outflow of cash and cash equivalents in respect of the Distribution		(661,036)

Notes to Financial Statements

31 December 2020

11. Discontinued Operation *(continued)*

The results of KWG Living Group for the year, which are only from transactions with counterparties external to the Group and do not necessarily represent the activities of the operation as individual entities, are presented below:

	2020* RMB'000	2019 RMB'000
Revenue	732,921	1,014,308
Expenses	(405,122)	(763,353)
Finance costs	(252)	(351)
Profit before tax from the discontinued operation	327,547	250,604
Income tax	(91,367)	(65,617)
Profit for the year from the discontinued operation	236,180	184,987

* These amounts represent the activities of KWG Living Group contributed to the Group in the current year prior to the Distribution Date.

The net cash flows incurred by KWG Living Group are as follows:

	2020* RMB'000	2019 RMB'000
Operating activities	214,947	259,405
Investing activities	304,593	(14,947)
Financing activities	(275,269)	(3,683)
Net cash inflow	244,271	240,775
Earnings per share:		
Basic, from the discontinued operation	RMB7 cents	RMB6 cents
Diluted, from the discontinued operation	RMB7 cents	RMB6 cents

* These amounts represent the activities of KWG Living Group contributed to the Group in the current year prior to the Distribution Date.

11. Discontinued Operation *(continued)*

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2020	2019
Profit attributable to owners of the Company from the discontinued operation	RMB230,972,000	RMB184,887,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 13)	3,177,056,096	3,174,303,108
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 13)	3,181,197,036	3,178,532,024

12. Dividends

(a) Dividends

	Note	2020 RMB'000	2019 RMB'000
Proposed final dividend (with scrip option) – RMB53 cents (2019: RMB42 cents (with scrip option)) per ordinary share		1,685,668	1,334,360
Interim dividend declared – RMB40 cents (2019: RMB32 cents) per ordinary share	37(b)	1,271,220	1,020,309
		2,956,888	2,354,669

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

(b) Distribution in specie

On 30 October 2020, in connection with the listing of KWG Living, a distribution in specie of all the issued share capital of KWG Living held by the Company, being 1,589,025,505 shares of KWG Living, was made to the Qualifying KWG Shareholders on a pro-rata basis to their shareholdings in the Company on a basis of one share of KWG Living for every two shares held by the Qualifying Shareholders.

13. Earnings Per Share Attributable to Owners of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 3,177,056,096 (2019: 3,174,303,108) in issue during the year.

For the year ended 31 December 2020, the calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 3,177,056,096 (2019: 3,174,303,108) plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares of 4,140,940 (2019: 4,228,916).

The calculations of the basic and diluted earnings per share amounts are based on:

	2020 RMB'000	2019 RMB'000 (Restated)
Earnings		
Profit attributable to owners of the Company		
From continuing operations	6,445,620	9,620,926
From a discontinued operation	230,972	184,887
	6,676,592	9,805,813
Number of shares		
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	3,177,056,096	3,174,303,108
Effect of dilution – awarded shares	4,140,940	4,228,916
Weighted average number of ordinary shares during the year used in diluted earnings per share calculation	3,181,197,036	3,178,532,024

14. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Right-of-use assets		Total RMB'000
							Buildings RMB'000	Vehicle RMB'000	
31 December 2020									
At 1 January 2020:									
Cost	3,258,159	146,849	3,188	473,489	136,790	2,554,687	569,520	481,967	7,624,649
Accumulated depreciation	(617,495)	(61,964)	(3,173)	(331,060)	(102,898)	-	(58,752)	(38,156)	(1,213,498)
Net carrying amount	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151
At 1 January 2020, net of accumulated depreciation									
At 1 January 2020, net of accumulated depreciation	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151
Additions	1,076,944	75,474	1,342	96,227	2,599	332,065	93,793	-	1,678,444
Disposals	(4,845)	(11,200)	-	(903)	(1,456)	-	-	-	(18,404)
Acquisition of subsidiaries	-	-	-	546	306	-	-	-	852
Assets included in the discontinued operation (note 11)	(464)	-	(455)	(2,954)	(872)	-	(6,495)	-	(11,240)
Derecognition of subsidiaries	-	-	-	(68)	-	-	-	-	(68)
Depreciation provided during the year	(112,183)	(30,629)	(887)	(43,433)	(6,056)	-	(56,968)	(30,525)	(280,681)
At 31 December 2020, net of accumulated depreciation									
At 31 December 2020, net of accumulated depreciation	3,600,116	118,530	15	191,844	28,413	2,886,752	541,098	413,286	7,780,054
At 31 December 2020:									
Cost	4,322,333	205,588	3,188	559,121	134,663	2,886,752	651,655	481,967	9,245,267
Accumulated depreciation	(722,217)	(87,058)	(3,173)	(367,277)	(106,250)	-	(110,557)	(68,681)	(1,465,213)
Net carrying amount	3,600,116	118,530	15	191,844	28,413	2,886,752	541,098	413,286	7,780,054

Notes to Financial Statements

31 December 2020

14. Property, Plant and Equipment *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Right-of-use assets		Total RMB'000
							Buildings RMB'000	Vehicle RMB'000	
31 December 2019									
At 1 January 2019:									
Cost	3,277,489	67,331	3,188	383,461	132,784	1,967,341	437,847	481,967	6,751,408
Accumulated depreciation	(519,913)	(34,672)	(3,173)	(305,913)	(90,811)	-	-	(7,631)	(962,113)
Net carrying amount	2,757,576	32,659	15	77,548	41,973	1,967,341	437,847	474,336	5,789,295
At 1 January 2019, net of accumulated									
depreciation	2,757,576	32,659	15	77,548	41,973	1,967,341	437,847	474,336	5,789,295
Additions	42,745	82,254	-	89,978	4,238	587,346	131,673	-	938,234
Disposals	(8,381)	(2,734)	-	(44)	(173)	-	-	-	(11,332)
Acquisition of subsidiaries	-	-	-	431	436	-	-	-	867
Derecognition of subsidiaries	-	-	-	(136)	(24)	-	-	-	(160)
Surplus on revaluation upon the transfer to investment properties	78,112	-	-	-	-	-	-	-	78,112
Transfers (note 15)	(131,806)	-	-	-	-	-	-	-	(131,806)
Depreciation provided during the year	(97,582)	(27,294)	-	(25,348)	(12,558)	-	(58,752)	(30,525)	(252,059)
At 31 December 2019, net of accumulated									
depreciation	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151
At 31 December 2020:									
Cost	3,258,159	146,849	3,188	473,489	136,790	2,554,687	569,520	481,967	7,624,649
Accumulated depreciation	(617,495)	(61,964)	(3,173)	(331,060)	(102,898)	-	(58,752)	(38,156)	(1,213,498)
Net carrying amount	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151

At 31 December 2020, certain items of the Group's property, plant and equipment with an aggregate net carrying amount of approximately RMB3,031,614,000 (2019: approximately RMB2,743,081,000) were pledged to secure general banking facilities granted to the Group (note 39(a)).

15. Investment Properties

	2020				2019			
	Completed investment properties RMB'000	Investment properties under construction RMB'000	Right-of-use assets RMB'000	Total RMB'000	Completed investment properties RMB'000	Investment properties under construction RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2020	16,298,329	9,519,000	1,446,000	27,263,329	13,071,588	4,419,002	1,406,000	18,896,590
Transfers from properties under development (note 20)	-	315,717	-	315,717	-	2,096,993	-	2,096,993
Transfers from completed properties held for sale (note 21)	313,191	-	-	313,191	516,282	-	-	516,282
Transfers from property, plant and equipment (note 14)	-	-	-	-	131,806	-	-	131,806
Transfers from land use rights (note 16)	-	-	-	-	10,848	-	-	10,848
Additions	-	1,307,918	-	1,307,918	-	2,016,030	75,692	2,091,722
Transfers	7,158,846	(7,158,846)	-	-	931,712	(931,712)	-	-
Disposals	(4,503)	-	(289,960)	(294,463)	(197,373)	-	-	(197,373)
Net gain/(loss) from a fair value adjustment	(72,663)	634,530	(146,710)	415,157	1,833,466	1,918,687	(35,692)	3,716,461
Carrying amount at 31 December	23,693,200	4,618,319	1,009,330	29,320,849	16,298,329	9,519,000	1,446,000	27,263,329

The Group's investment properties consist of commercial properties and right-of-use assets in Mainland China. The directors of the Company have determined that the investment properties consist of two classes of assets, commercial properties and right-of-use assets, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Savills Valuation and Professional Services Limited and Cushman & Wakefield Limited, independent professionally qualified valuers, at approximately RMB29,320,849,000 (2019: approximately RMB27,263,329,000). Each year, the management of the Group decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The management of the Group has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 17 to the financial statements.

At 31 December 2020, certain items of the Group's investment properties with an aggregate carrying amount of approximately RMB7,291,926,000 (2019: approximately RMB13,506,919,000) were pledged to secure general banking facilities granted to the Group (note 39(a)).

At 31 December 2020, the Group has not yet obtained the real estate ownership certificates of investment properties with a net carrying amount of approximately RMB7,370,960,000 (2019: approximately RMB6,115,546,000) from the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 247 of the annual report.

Notes to Financial Statements

31 December 2020

15. Investment Properties *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	-	-	28,311,519	28,311,519
Right-of-use assets	-	-	1,009,330	1,009,330
	-	-	29,320,849	29,320,849
	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	-	-	25,817,329	25,817,329
Right-of-use assets	-	-	1,446,000	1,446,000
	-	-	27,263,329	27,263,329

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2020	2019
Commercial properties	Investment approach and direct comparison approach	Market rent (per sq.m. and per month)	RMB29 to 980	RMB29 to 980
		Capitalisation rates	3.00% to 5.50%	3.00% to 5.50%
Right-of-use assets	Investment approach	Capitalisation rates	3.00% to 4.75%	3.00% to 4.75%

15. Investment Properties *(continued)*

Fair value hierarchy *(continued)*

All the properties are valued by the investment approach taking into account the rental income derived from the existing tenancies with due allowance for the reversionary income potential of the tenancies, which are then capitalised into the value at appropriate rates.

The commercial properties are also valued by the direct comparison approach on the assumption that each property can be sold in their existing state subject to existing tenancies or otherwise by referring to comparable sales transactions as available in the relevant markets. Comparison is based on prices realised on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analysed, and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. The two approaches are reconciled, if applicable.

A significant increase (decrease) in the capitalisation rates in isolation would result in a significant decrease (increase) in the fair value of the investment properties. A significant increase (decrease) in the market rent in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

16. Land Use Rights

	Notes	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January		1,152,384	1,140,936
Surplus on revaluation upon the transfer to investment properties		-	6,426
Transfer to investment properties	15	-	(10,848)
Additions		1,563,437	49,888
Amortisation recognised during the year	6	(63,966)	(34,018)
Carrying amount at 31 December		2,651,855	1,152,384
Non-current portion		2,651,855	1,152,384

At 31 December 2020, certain items of the Group's land use rights with an aggregate net carrying amount of approximately RMB741,252,000 (2019: approximately RMB432,122,000) were pledged to banks to secure general banking facilities granted to the Group (note 39(a)).

At 31 December 2020, the Group has not yet obtained the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB718,451,000 (2019: approximately RMB24,357,000) from the relevant government authorities.

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of lands, buildings and vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 70 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 and 20 years, while vehicles generally have lease terms of 12 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are included in notes 14, 15 and 16.

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Note	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January		2,125,771	2,097,472
New leases		92,867	146,789
Early termination		(294,409)	–
Liabilities included in the discontinued operation	11	(6,684)	–
Accretion of interest recognised during the year		124,148	128,262
Payments		(265,061)	(246,752)
Carrying amount at 31 December		1,776,632	2,125,771
Analysed into:			
Current portion		209,341	230,445
Non-current portion		1,567,291	1,895,326

The maturity analysis of lease liabilities is disclosed in note 44 to the financial statements.

(c) The amounts recognised in profit or loss from continuing operations in relation to leases are as follows:

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
Interest on lease liabilities	7	123,896	127,911
Depreciation charge of right-of-use assets		83,682	85,896
Expense relating to low-value assets and short-term leases (included in cost of sales and administrative expenses)	6	5,048	8,271
Decrease in fair value	15	146,710	35,692
Total amount recognised in profit or loss		359,336	257,770

17. LEASES (continued)**The Group as a lessor**

The Group leases its investment properties consisting of several commercial properties in Mainland China under operating lease arrangements, with leases negotiated for terms ranging from 1 to 16 years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was approximately RMB801,073,000 (2019: RMB626,909,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	587,224	481,071
After one year but within two years	427,057	325,605
After two years but within three years	257,305	218,751
After three years but within four years	133,722	124,181
After four years but within five years	87,053	72,465
After five years	170,120	183,057
	1,662,481	1,405,130

18. Interests in Associates

	2020 RMB'000	2019 RMB'000
Share of net assets	3,929,773	2,469,167
Advances to associates	1,409,050	2,201,274
	5,338,823	4,670,441

As at 31 December 2020, except for an aggregate amount of approximately RMB582,103,000 (2019: approximately RMB744,429,000), which bears interest at 4.4% to 11.0% (2019: 4.4% to 9.0%) per annum, the advances to associates as shown above are unsecured, interest-free and not repayable within 12 months. In the opinion of the directors, these advances are considered as part of the Group's net investments in the associates.

As at 31 December 2020, the amounts due to associates included in the Group's current liabilities of approximately RMB3,244,654,000 (2019: approximately RMB1,345,495,000) are unsecured, interest-free and have no fixed term of repayment.

Notes to Financial Statements

31 December 2020

18. Interests in Associates *(continued)*

The Group's shareholdings in the associates all comprise equity shares held by the wholly-owned subsidiaries of the Company.

The associates of the Group are all not individually material.

19. Interests in Joint Ventures

	2020 RMB'000	2019 RMB'000
Share of net assets	24,761,811	23,410,894
Advances to joint ventures	22,110,232	19,585,566
	46,872,043	42,996,460

As at 31 December 2020, except for an aggregate amount of approximately RMB4,371,565,000 (2019: approximately RMB3,671,374,000), which bear interest at 6.0% to 15.0% (2019: 6.0% to 12.0%) per annum, the advances to joint ventures as shown above are unsecured, interest-free and not repayable within 12 months. In the opinion of the directors, these advances were considered as part of the Group's net investments in the joint ventures.

As at 31 December 2020, an amount due from a joint venture included in the Group's current assets of approximately RMB30,004,000 (2019: approximately RMB30,062,000) is unsecured, interest-free and has no fixed terms of repayment.

As at 31 December 2020, the amounts due to joint ventures included in the Group's current liabilities of approximately RMB35,207,964,000 (2019: approximately RMB37,742,306,000) are unsecured, interest-free and has no fixed terms of repayment.

19. Interests in Joint Ventures (continued)

Particulars of the Group's material joint ventures as at the end of the reporting period are as follows:

Name	Particulars of registered capital	Place of registration and business	2020			Principal activities
			Percentage of			
			Ownership interest	Voting power	Profit sharing	
Chengdu Hongyu Real Estate Development Limited ("Chengdu Hongyu") [#]	US\$699,980,000	PRC/ Mainland China	50	50	50	Property development
Nantong Nanjing Property Development Limited ("Nantong Nanjing") ^{**}	US\$185,189,000	PRC/ Mainland China	51	51	51	Property development
Foshan Xinjin Real Estate Development Limited ("Foshan Xinjin") [#]	US\$70,000,000	PRC/ Mainland China	50	50	50	Property development
Unicorn Bay Limited ("Unicorn Bay")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Property development
Great Smart International Limited ("Great Smart")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Property development

Name	Particulars of registered capital	Place of registration and business	2019			Principal activities
			Percentage of			
			Ownership interest	Voting power	Profit sharing	
Chengdu Hongyu [#]	US\$699,980,000	PRC/ Mainland China	50	50	50	Property development
Guangzhou Jinjing Property Development Limited ("Guangzhou Jinjing") [#]	RMB50,000,000	PRC/ Mainland China	50	50	50	Property development
Foshan Xinfeng Real Estate Development Limited ("Foshan Xinfeng") [#]	US\$194,000,000	PRC/ Mainland China	50	50	50	Property development
Unicorn Bay	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Property development
Great Smart	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Property development

* Nantong Nanjing is accounted for as a joint venture of the Group as all significant operating and financial activities need to be decided by all the joint venture partners.

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those entities, as no English names have been registered.

The above investments are indirectly held through wholly-owned subsidiaries of the Company.

As at 31 December 2020, Chengdu Hongyu, Nantong Nanjing, Foshan Xinjin, Unicorn Bay and Great Smart, which are considered the material joint ventures of the Group, engage in the property development business in Mainland China and Hong Kong and have been accounted for using the equity method.

Notes to Financial Statements

31 December 2020

19. Interests in Joint Ventures *(continued)*

The following table illustrates the summarised financial information in respect of the Group's material joint ventures adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	Chengdu Hongyu RMB'000	Nantong Nanjing RMB'000	2020 Foshan Xinjin RMB'000	Unicorn Bay RMB'000	Great Smart RMB'000
Current assets	9,464,892	2,420,393	2,798,727	18,761,444	9,507,965
Non-current assets	480,222	44,234	76,761	10,507	40,462
Total assets	9,945,114	2,464,627	2,875,488	18,771,951	9,548,427
Current liabilities	(1,260,988)	(469,142)	(1,424,541)	(664,026)	(5,472,937)
Non-current liabilities	(523,760)	(383,900)	(527,658)	(6,809,208)	(5,628)
Total liabilities	(1,784,748)	(853,042)	(1,952,199)	(7,473,234)	(5,478,565)
Revenue	220,928	1,768,987	1,743,819	-	-
Profit/(loss) for the year	191,595	368,289	366,014	(21,012)	(11,709)
Other comprehensive income	-	-	-	2,682	2,890
Total comprehensive income/(loss) for the year	191,595	368,289	366,014	(18,330)	(8,819)

The following table illustrates the summarised financial information in respect of the Group's material joint ventures adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	Chengdu Hongyu RMB'000	Guangzhou Jinjing RMB'000	2019 Foshan Xinfeng RMB'000	Unicorn Bay RMB'000	Great Smart RMB'000
Current assets	10,200,121	6,109,624	5,940,315	17,852,968	7,713,828
Non-current assets	472,932	61,052	62,207	34,550	457
Total assets	10,673,053	6,170,676	6,002,522	17,887,518	7,714,285
Current liabilities	(2,309,351)	(2,989,297)	(3,724,296)	(674,373)	(3,370,158)
Non-current liabilities	(394,931)	(2,530,000)	-	(6,246,282)	-
Total liabilities	(2,704,282)	(5,519,297)	(3,724,296)	(6,920,655)	(3,370,158)
Revenue	1,854,824	2,157,752	2,061,667	-	-
Profit/(loss) for the year	1,120,156	633,988	605,583	(33,351)	(37,923)
Other comprehensive loss	-	-	-	(382)	(552)
Total comprehensive income/(loss) for the year	1,120,156	633,988	605,583	(33,733)	(38,475)

19. Interests in Joint Ventures *(continued)*

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2020 RMB'000	2019 RMB'000
Share of the joint ventures' profit for the year	1,676,309	1,789,170
Share of the joint ventures' other comprehensive income/(loss)	576,408	(72,404)
Share of the joint ventures' total comprehensive income	2,252,717	1,716,766
Aggregate carrying amount of the Group's investments in the joint ventures	33,824,018	29,891,777

Fair value gains in respect of properties owned by the Group's joint ventures are included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

20. Properties Under Development

	2020 RMB'000	2019 RMB'000
Properties under development expected to be recovered:		
Within one year	31,220,651	29,765,773
More than one year	34,392,669	21,994,917
	65,613,320	51,760,690

The Group's properties under development were mainly located in Mainland China and Hong Kong and are stated at cost.

During the year ended 31 December 2020, certain items of the Group's properties under development with an aggregate carrying value of approximately RMB315,717,000 (2019: approximately RMB2,096,993,000) (note 15) were transferred to investment properties.

As at 31 December 2020, certain items of the Group's properties under development with an aggregate carrying amount of approximately RMB13,741,498,000 (2019: approximately RMB13,514,324,000) were pledged to secure general banking facilities granted to the Group (note 39(a)).

Included in the Group's properties under development as at 31 December 2020 were land costs with an aggregate net carrying amount of approximately RMB11,726,266,000 (2019: approximately RMB544,469,000) for which the Group has not yet obtained land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of certain relevant land use right grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 247 of the annual report.

21. Completed Properties Held for Sale

The Group's completed properties held for sale are located in Mainland China. All completed properties held for sale are stated at the lower of cost and net realisable value.

During the year ended 31 December 2020, the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB313,191,000 (2019: approximately RMB516,282,000) were transferred to investment properties (note 15).

As at 31 December 2020, certain items of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB3,031,956,000 (2019: approximately RMB3,667,565,000) were pledged to secure general banking facilities granted to the Group (note 39(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 247 of the annual report.

22. Trade Receivables

Trade receivables mainly consist of receivables from the sale of properties, rentals under operating leases and hotel operation. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements, whilst the Group's trading terms with its customers in relation to the provision of rental and other services are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 12 months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	1,139,192	1,654,053
4 to 6 months	-	22,434
7 to 12 months	433,279	363,656
Over 1 year	342,108	126,616
	1,914,579	2,166,759

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. For the sale of properties, rentals under operating leases and provision of property management services and hotel operation businesses of the Group, management has assessed that the expected credit loss rate for trade receivables was minimal as at 31 December 2020 and 31 December 2019. In the opinion of the directors of the Company, the Group's trade receivables relate to a large number of diversified customers with no recent history of default and the balances are considered fully recoverable considering the historical records and forward-looking information.

23. Prepayments, Other Receivables and Other Assets

	2020 RMB'000	2019 RMB'000
Prepayments	1,765,682	1,347,559
Contract costs	613,946	381,935
Prepaid other taxes	2,280,966	1,680,375
Deposits and other receivables	5,154,138	3,991,696
	9,814,732	7,401,565

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. Tax Recoverables/Tax Payables

(a) Tax recoverables

	2020 RMB'000	2019 RMB'000
Prepaid CIT	236,341	226,201
Prepaid LAT	612,078	496,579
	848,419	722,780

(b) Tax payables

	2020 RMB'000	2019 RMB'000
CIT payable	5,699,825	4,551,838
LAT payable	6,584,962	5,374,299
	12,284,787	9,926,137

Notes to Financial Statements

31 December 2020

25. Cash and Cash Equivalents and Restricted Cash

	Notes	2020 RMB'000	2019 RMB'000
Cash and bank balances		25,304,414	29,403,189
Time deposits		19,276,067	27,330,816
		44,580,481	56,734,005
Less: Restricted cash	(a)	(3,944,716)	(5,356,141)
Cash and cash equivalents		40,635,765	51,377,864
		43,286,810	51,451,431
Denominated in RMB	(b)	1,293,671	5,282,574
Denominated in other currencies			
		44,580,481	56,734,005

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties.

Certain items of the Group's cash and bank balances and time deposits were restricted to be used in designated purposes. Besides, as at 31 December 2019, time deposits of RMB756,710,000 were pledged to secure general banking facilities granted to the Group (note 39(a)).

- (b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made at a maximum of three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

26. Trade and Bills Payables

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within one year	13,165,515	9,072,301

The trade and bills payables are non-interest-bearing and are normally settled on demand.

27. Other Payables and Accruals

	Note	2020 RMB'000	2019 RMB'000
Contract liabilities		15,615,816	15,542,373
Other payables and accruals		15,448,894	11,308,048
Other tax payables		651,303	723,889
Deferred income	(a)	13,002	13,047
Payroll payables		17,281	39,685
		31,746,296	27,627,042

Note:

- (a) The deferred income is related to a government grant of RMB203,700,000 received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. During the year, approximately RMB45,000 (2019: approximately RMB261,000) has been credited to the cost of sales.

Other payables are non-interest-bearing and are normally settled on demand.

Notes to Financial Statements

31 December 2020

28. Interest-bearing Bank and Other Borrowings

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– secured	4.75-11.00	2021	1,805,244	4.75-10.70	2020	3,834,083
– unsecured	4.35-7.50	2021	1,127,000	–	–	–
– denominated in HK\$, secured	HIBOR+2.4-3.51	2021	1,468,060	–	–	–
– denominated in US\$, secured	LIBOR+3.51	2021	913,076	2.92	2020	752,545
Current portion of long-term bank loans						
– secured	4.75-8.50	2021	1,584,843	4.75-9.90	2020	1,535,027
– unsecured	4.75-8.50	2021	364,904	4.75-8.50	2020	1,197,093
– denominated in HK\$, secured	HIBOR+3.66	2021	181,341	HIBOR+1.8-3.66	2020	582,311
– denominated in US\$, secured	LIBOR+3.66	2021	87,038	LIBOR+3.51-3.66	2020	318,658
Senior notes						
– denominated in US\$, secured (note (a))	8.27	2021	2,277,680	10.25	2020	3,811,567
Domestic corporate bonds – unsecured (note (b))	4.88-7.31	2021	15,446,153	5.61-8.19	2020	11,696,759
			<u>25,255,339</u>			<u>23,728,043</u>
Non-current						
Bank loans						
– secured	3.90-8.50	2022-2045	20,761,855	4.70-11.00	2021-2043	20,310,775
– unsecured	4.75-8.50	2022-2035	1,749,376	4.75-8.50	2021-2039	2,883,746
– denominated in HK\$, secured	HIBOR+3.66	2022	639,226	HIBOR+1.8-3.66	2021-2022	2,766,011
– denominated in US\$, secured	LIBOR+3.66	2022	308,198	LIBOR+3.51-3.66	2021-2022	1,393,665
– denominated in US\$, unsecured	LIBOR+3.00	2022	652,270	–	–	–
Senior notes						
– denominated in US\$, secured (note (a))	5.45-7.81	2022-2027	23,795,517	5.45-8.27	2021-2024	21,380,020
Domestic corporate bonds – unsecured (note (b))	5.82-7.01	2022-2023	4,698,834	4.88-7.09	2021-2022	13,115,290
			<u>52,605,276</u>			<u>61,849,507</u>
			<u>77,860,615</u>			<u>85,577,550</u>

28. Interest-bearing Bank and Other Borrowings (continued)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	7,531,506	8,219,717
In the second year	8,675,083	12,301,292
In the third to fifth years, inclusive	7,915,144	6,263,692
Beyond five years	7,520,698	8,789,213
	31,642,431	35,573,914
Senior notes repayable:		
Within one year	2,277,680	3,811,567
In the second year	7,478,837	2,415,501
In the third to fifth years, inclusive	11,762,593	18,964,519
Beyond five years	4,554,087	–
	26,073,197	25,191,587
Domestic corporate bonds repayable:		
Within one year	15,446,153	11,696,759
In the second year	4,134,465	12,955,280
In the third to fifth years, inclusive	564,369	160,010
	20,144,987	24,812,049
	77,860,615	85,577,550

Certain items of the Group's borrowings are secured by the Group's assets, details of which are disclosed in note 39.

Except for the above-mentioned borrowings denominated in HK\$ and US\$, all borrowings were denominated in RMB as at the end of the reporting period.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes:

- (a) On 11 January 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,733,113,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 11 January 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 11 January and 11 July of each year, commencing on 11 July 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 29 December 2016, 30 December 2016 and 11 January 2017.

On 15 March 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,772,980,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year, commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 9 March 2017, 10 March 2017 and 16 March 2017.

On 29 March 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$100,000,000 (equivalent to approximately RMB 672,638,000) (to be consolidated and form a single series with the US\$400,000,000 6.00% senior notes due 2022 issued on 15 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017 and 29 March 2017.

On 21 September 2017, the Company issued 5.20% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,646,675,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 21 September 2022. The senior notes carry interest at a rate of 5.20% per annum, which is payable semi-annually in arrears on 21 March and 21 September of each year, commencing on 21 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 18 September 2017, 19 September 2017 and 22 September 2017.

On 10 November 2017, the Company issued 5.875% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,651,280,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 November 2024. The senior notes carry interest at a rate of 5.875% per annum, which is payable semi-annually in arrears on 10 May and 10 November of each year commencing on 10 May 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 7 November 2017, 8 November 2017 and 10 November 2017.

On 7 December 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$150,000,000 (equivalent to approximately RMB992,925,000) (to be consolidated and form a single series with the US\$400,000,000 6.00% senior notes due 2022 issued on 15 March 2017, and the US\$100,000,000 6.00% senior notes due 2022 issued on 29 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017, 29 March 2017, 1 December 2017 and 7 December 2017.

On 9 August 2018, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,391,095,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 9 August 2021. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 9 February and 9 August of each year commencing on 9 February 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 31 July 2018, 1 August 2018 and 9 August 2018.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

(a) *(continued)*

On 26 November 2018, the Company issued 9.85% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,778,120,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 26 November 2020. The senior notes carry interest at a rate of 9.85% per annum, which is payable semi-annually in arrears on 26 May and 26 November of each year commencing on 26 May 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 14 November 2018, 15 November 2018 and 26 November 2018. On 26 November 2020, the Company repaid the senior notes.

On 11 December 2018, the Company issued 9.85% senior notes with an aggregate principal amount of US\$150,000,000 (equivalent to approximately RMB1,034,940,000) (to be consolidated and form a single series with the US\$400,000,000 9.85% senior notes due 2020 issued on 26 November 2018). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 26 November 2020. The senior notes carry interest at a rate of 9.85% per annum, which is payable semi-annually in arrears on 26 May and 26 November of each year commencing on 26 May 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 30 November 2018 and 11 December 2018. On 26 November 2020, the Company repaid the senior notes.

On 1 March 2019, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,343,495,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 1 September 2023. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 1 March and 1 September of each year commencing on 1 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 21 February 2019, 22 February 2019 and 1 March 2019.

On 22 March 2019, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,343,040,000) (to be consolidated and form a single series with the US\$350,000,000 7.875% senior notes due 2023 issued on 1 March 2019). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 1 September 2023. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 1 March and 1 September of each year commencing on 1 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 20 March 2019 and 22 March 2019.

On 3 July 2019, the Company issued 5.875% senior notes with an aggregate principal amount of US\$225,000,000 (equivalent to approximately RMB1,544,400,000) (to be consolidated and form a single series with the US\$400,000,000 5.875% senior notes due 2024 issued on 10 November 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 November 2024. The senior notes carry interest at a rate of 5.875% per annum, which is payable semi-annually in arrears on 10 May and 10 November of each year commencing on 10 November 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 25 June 2019 and 3 July 2019.

On 29 July 2019, the Company issued 7.4% senior notes with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB2,064,630,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 5 March 2024. The senior notes carry interest at a rate of 7.4% per annum, which is payable semi-annually in arrears on 5 March and 5 September of each year commencing on 5 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 22 July 2019, 23 July 2019 and 29 July 2019.

On 13 January 2020, the Company issued 7.4% senior notes with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB2,077,890,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 13 January 2027. The senior notes carry interest at a rate of 7.4% per annum, which is payable semi-annually in arrears on 13 January and 13 July of each year commencing on 13 July 2020. For further details on the senior notes, please refer to the related announcements of the Company dated 7 January 2020 and 13 January 2020.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

(a) *(continued)*

On 10 August 2020, the Company issued 5.95% senior notes with an aggregate principal amount of US\$200,000,000 (equivalent to approximately RMB1,392,980,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 August 2025. The senior notes carry interest at a rate of 5.95% per annum, which is payable semi-annually in arrears on 10 February and 10 August of each year commencing on 10 February 2021. For further details on the senior notes, please refer to the related announcements of the Company dated 4 August 2020 and 10 August 2020.

On 13 November 2020, the Company issued 6.3% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,651,400,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 13 February 2026. The senior notes carry interest at a rate of 6.3% per annum, which is payable semi-annually in arrears on 13 February and 13 August of each year commencing on 13 February 2021. For further details on the senior notes, please refer to the related announcements of the Company dated 8 November 2020, 13 November 2020 and 16 November 2020.

(b)(i) On 17 December 2015, Guangzhou Hejing, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,300,000,000. The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 4.94% per annum which was adjusted to 7.00% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 1 Bonds"), and the second type has a term of seven years and bears a coupon rate at 6.15% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 2 Bonds").

The aggregate principal amount for the Type 1 Bonds issued was RMB2,500,000,000 and the aggregate principal amount for the Type 2 Bonds issued was RMB800,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 15 December 2015 and 16 December 2015.

(b)(ii) On 28 March 2016, Guangzhou Tianjian, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,200,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 3.90% per annum which was adjusted to 7.0% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 3 Bonds"), and the second type has a term of ten years and bears a coupon rate at 4.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 4 Bonds").

The aggregate principal amount for the Type 3 Bonds issued was RMB600,000,000 and the aggregate principal amount for the Type 4 Bonds issued was RMB1,600,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 24 March 2016 and 28 March 2016.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(iii) On 26 April 2016, Guangzhou Tianjian issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB6,500,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of seven years and bears a coupon rate at 5.60% per annum with the issuer's option to raise the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 5 Bonds"), and the second type has a term of seven years and bears a coupon rate at 5.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 6 Bonds").

The aggregate principal amount for the Type 5 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 6 Bonds issued was RMB5,500,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 7 April 2016 and 26 April 2016.

On 22 April 2020, Guangzhou Tianjian redeemed the Type 5 Bonds.

- (b)(iv) On 21 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,000,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.85% per annum which was adjusted to 6.85% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors can exercise a retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 21 July 2016.

- (b)(v) On 28 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,300,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.95% per annum which was adjusted to 6.95% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investor can exercise a retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 28 July 2016.

- (b)(vi) On 30 September 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB8,000,000,000.

The domestic corporate bonds consist of three types, of which the first type has a term of seven years and bears a coupon rate at 5.6% per annum which was adjusted to 7.10% per annum with the issuer's option to adjust the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 7 Bonds"), the second type has a term of seven years and bears a coupon rate at 5.7% per annum with the issuer's option to adjust the coupon rate after the end of the fourth and a half year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 8 Bonds"), and the third type has a term of seven years and bears a coupon rate at 5.8% per annum with the issuer's option to adjust the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 9 Bonds").

The aggregate principal amount for the Type 7 Bonds issued was RMB2,500,000,000; the aggregate principal amount for Type 8 Bonds issued was RMB2,500,000,000 and the aggregate principal amount for Type 9 Bonds issued was RMB3,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 30 September 2016. On 14 October 2020, the Company redeemed the Type 7 Bonds for RMB830,000,000.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(vii) On 26 September 2017, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 7.85% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 10 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum which was adjusted to 6.8% per annum with the issuer's option to adjust the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 11 Bonds").

The aggregate principal amount for the Type 10 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 11 Bonds issued was RMB2,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 25 September 2017 and 26 September 2017.

On 28 September 2020, Guangzhou Hejing redeemed the Type 10 Bonds and repaid Type 11 Bonds.

- (b)(viii) On 16 October 2017, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 8.00% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 12 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum with the issuer's option to raise the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 13 Bonds").

The aggregate principal amount for the Type 12 Bonds issued was RMB840,000,000 and the aggregate principal amount for the Type 13 Bonds issued was RMB2,160,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 16 October 2017.

On 18 October 2020, Guangzhou Hejing redeemed the Type 12 Bonds and repaid Type 13 Bonds.

- (b)(ix) On 17 March 2020, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,000,000,000.

The domestic corporate bonds have a term of three years and bear a coupon rate at 5.75% per annum with the issuer's option to adjust the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer.

28. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(x) On 24 August 2020, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,800,000,000.

The domestic corporate bonds have a term of three years and bear a coupon rate at 5.6% per annum with the issuer's option to adjust the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer.

- (b)(xi) On 12 October 2020, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,000,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 6% per annum with the issuer's option to adjust the coupon rate after the end of the second year or the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer.

- (b)(xii) On 10 November 2020, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB700,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 6.19% per annum with the issuer's option to adjust the coupon rate after the end of the second year or the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer.

- (c) The Group has established a contemplated strategy to repurchase and sell its own domestic corporate bonds and senior notes (collectively the "Bonds"), from time to time, in the open market, for the purposes of managing its overall leverage and reducing the Group's overall borrowing costs. During year ended 31 December 2020, the Group repurchased, redeemed and sold the Bonds with the aggregate principal amounts of approximately RMB6,246,265,000, RMB3,670,000,000 and RMB4,592,404,000, respectively. As at 31 December 2020, the aggregate principal amount of the Bonds included in interest-bearing bank and other borrowings was RMB46,436,729,000 (31 December 2019: RMB50,293,742,000).

29. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of subsidiaries	Revaluation of properties	Withholding taxes	Recognition of revenue over time	Right-of-use assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	92,188	339,277	2,989,488	139,720	195,145	469,538	19,000	4,244,356
Movements during the year	6,589	276,342	140,467	76,033	(54,434)	(89,971)	6,465	361,491
Gross deferred tax liabilities at 31 December 2020	98,777	615,619	3,129,955	215,753	140,711	379,567	25,465	4,605,847

Notes to Financial Statements

31 December 2020

29. Deferred Tax (continued)

Deferred tax assets

	Depreciation allowance in excess of related depreciation RMB'000	Provision for LAT RMB'000	Losses available for offset against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	2,960	2,045,098	361,932	574,075	3,262	467,823	-	3,455,150
Movements during the year	261	507,079	231,194	(78,208)	(11)	(70,354)	406	590,367
Gross deferred tax assets at 31 December 2020	3,221	2,552,177	593,126	495,867	3,251	397,469	406	4,045,517
Net deferred tax liabilities at 31 December 2020								(560,330)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Revaluation of properties RMB'000	Withholding taxes RMB'000	Recognition of revenue over time RMB'000	Right-of-use assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	84,181	70,980	2,030,315	139,720	153,669	457,693	9,725	2,946,283
Movements during the year	8,007	268,297	959,173	-	41,476	11,845	9,275	1,298,073
Gross deferred tax liabilities at 31 December 2019	92,188	339,277	2,989,488	139,720	195,145	469,538	19,000	4,244,356

Deferred tax assets

	Depreciation allowance in excess of related depreciation RMB'000	Provision for LAT RMB'000	Losses available for offset against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	2,711	1,741,003	538,954	197,200	3,327	444,734	2,927,929
Movements during the year	249	304,095	(177,022)	376,875	(65)	23,089	527,221
Gross deferred tax assets at 31 December 2019	2,960	2,045,098	361,932	574,075	3,262	467,823	3,455,150
Net deferred tax liabilities at 31 December 2019							(789,206)

29. Deferred Tax *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	2,432,853	1,872,238
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,993,183)	(2,661,444)
	(560,330)	(789,206)

The Group has unutilised tax losses arising in Mainland China of approximately RMB3,488,204,000 (2019: approximately RMB2,592,639,000) that will expire in one to five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB1,115,700,000 (2019: approximately RMB1,144,911,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2020, unremitted earnings that are subject to withholding taxes of the Group's subsidiaries, joint ventures and associates established in Mainland China of approximately RMB26,200,886,000 (2019: approximately RMB21,066,770,000) have not been recognised for withholding taxes.

Taking into account the Group's dividend policy and the working capital demand for business operation in Mainland China, the directors of the Company are of the opinion that it is the best interest of the Company to distribute its final dividend in the foreseeable future out of the share premium account of the Company, which is permissible by the Companies Law of the Cayman Islands and is also permissible by the Company's articles of association upon the approval of the Company's shareholders at the annual general meeting.

Notes to Financial Statements

31 December 2020

29. Deferred Tax *(continued)*

During the year, considering the future dividend plan, the Group provided additional deferred tax of approximately RMB76,033,000 (2019: Nil) related to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. Deferred Revenue

The Group entered into an agreement with a vendor (the "Vendor") on 7 July 2011, pursuant to which the Group should pay a cash consideration of RMB43,400,000, and transfer certain apartments and car parking spaces (collectively, the "Transfer Properties") of RMB11,000,000 to the Vendor, in exchange for the 10% equity interest in Shanghai Deyu. The exchange of the Transfer Properties is accounted for as a transaction which generates revenue. During the year ended 31 December 2014, the Group entered into a supplemental agreement with the Vendor, pursuant to which the Group paid a cash consideration of RMB8,958,000 to the Vendor in place of transferring partial apartments and car parking spaces to the Vendor. As at 31 December 2020, the remaining apartments and car parking spaces had not been transferred to the Vendor. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the remaining parts of the Transfer Properties.

31. Share Capital

Shares

	2020		2019	
	No. of shares	RMB'000	No. of shares	RMB'000
Authorised:				
Ordinary shares of HK\$0.10 each	8,000,000,000	786,113	8,000,000,000	786,113
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	3,180,505,853	304,474	3,176,749,463	304,148

31. Share Capital *(continued)***Shares** *(continued)*

A summary of movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2019	3,174,071,756	303,909	(125)	3,653,876	3,957,660
Final 2018 dividend declared	-	-	-	(983,962)	(983,962)
Shares issued as scrip dividend during the year	723,707	63	-	5,263	5,326
Issue of treasury shares (note (a))	1,954,000	176	(176)	-	-
Vested awarded shares transferred to employees	-	-	125	15,310	15,435
Interim 2019 dividend	-	-	-	(1,020,309)	(1,020,309)
At 31 December 2019 and 1 January 2020	3,176,749,463	304,148	(176)	1,670,178	1,974,150
Issue of treasury shares (note (a))	2,454,842	207	(207)	-	-
Vested awarded shares transferred to employees	-	-	174	19,251	19,425
Share options exercised (note (b))	392,000	35	-	4,724	4,759
Share repurchase	-	-	(1,514)	-	(1,514)
Final 2019 dividend declared	-	-	-	(1,334,360)	(1,334,360)
Shares issued as scrip dividend during the year	909,548	84	-	11,817	11,901
Interim 2020 dividend	-	-	-	(371,610)	(371,610)
At 31 December 2020	3,180,505,853	304,474	(1,723)	-	302,751

Notes:

- (a) During the year ended 31 December 2020, 2,454,842 (2019: 1,954,000) new shares of HK\$0.10 each were issued to the trustee for the purpose of the Share Award Scheme as further disclosed in note 32 to the financial statements. These 2,454,842 (2019: 1,954,000) shares are held by the trustee and were recorded in treasury shares upon the issue of new shares. As at 31 December 2020, 2,454,842 (2019: 1,954,000) shares are held by the trustee and would be granted in the future.
- (b) The subscription rights attaching to 392,000 share options were exercised at the subscription price of HK\$11.12 per share (note 32), resulting in the issue of 392,000 shares for a total cash consideration, before expenses, of RMB3,952,000. An amount of RMB807,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

32. Employee Share Schemes

(a) Share option scheme

Pursuant to the shareholder's resolutions of the Company passed on 9 February 2018, the Company has adopted the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants (the "Eligible Participants") who will contribute and has contributed to the success of the Group's operations. Eligible participants of the Share Option Scheme include any directors, full-time or part-time employees, executives or officers, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries. Upon becoming effective, the Share Option Scheme will remain in force for 10 years from that date.

The maximum number of shares that may be issued upon the exercise of the options that may be granted under the Share Option Scheme is 10% of the total number of issued shares as at the date of the adoption of the Share Option Scheme. The aggregate number of shares which may be issued upon the exercise of all options that may be granted under the Share Option Scheme has not exceeded 30% of the shares in issue as at the latest practicable date. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the issue of a circular by the Company and the shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000 or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange of Hong Kong Limited closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange of Hong Kong Limited closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 9 February 2018, the Group granted 1,719,000 share options with an exercise price of HK\$12.024 per share upon the acceptance of the grantees (the "Grantees") of the Group. None of the Grantees is a director, chief executive and substantial shareholder of the Company.

32. Employee Share Schemes *(continued)*

(a) Share option scheme *(continued)*

On 12 February 2018, as approved by the board of the Company, and consented by each of the Grantees, share options granted on 9 February 2018 had been cancelled.

On 13 February 2018, the Group granted 1,719,000 share options with an exercise price of HK\$11.12 per share upon the acceptance of the Grantees of the Group. None of the Grantees is a director, chief executive and substantial shareholder of the Company.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2020		2019	
	Weighted average exercise price (HK\$ per share)	Number of options	Weighted average exercise price (HK\$ per share)	Number of options
At 1 January	11.12	1,494,000	11.12	1,569,000
Granted	-	-	-	-
Cancelled	-	-	-	-
Forfeited	11.12	(153,500)	11.12	(75,000)
Exercised	11.12	(392,000)	11.12	-
At 31 December	11.12	948,500	11.12	1,494,000

The share options granted to the employees of the Group are exercisable during the following periods:

Share options granted on 13 February 2018

- (i) Each grantee may exercise not more than one-third of his respective options granted from the first anniversary of the date of grant (i.e. 13 February 2019);
- (ii) Each grantee may exercise not more than one-third of his respective options granted from the second anniversary of the date of grant (i.e. 13 February 2020); and
- (iii) Each grantee may exercise all his respective remaining options granted from the date of the third anniversary of the date of grant (i.e. 13 February 2021).

And, in each case, not later than 12 February 2022.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair value of the share options granted on 13 February 2018 determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$4,058,000. Approximately HK\$402,000 (equivalent to approximately RMB338,000) was charged to the statement of profit or loss during the year ended 31 December 2020 (2019: approximately HK\$1,121,000 (equivalent to approximately RMB1,008,000)).

32. Employee Share Schemes *(continued)*

(a) Share option scheme *(continued)*

The following inputs were used to calculate the fair values of the share options granted:

	Options granted on 13 February 2018
Exercise price	HK\$11.12
Expected life	4 years
Expected volatility	43.35%
Expected dividend yield (%)	7.18%
Risk-free interest rate (%)	0.84%

At 31 December 2020, the Company had 948,500 (31 December 2019: 1,494,000) share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 948,500 (31 December 2019: 1,494,000) additional ordinary shares of the Company, additional share capital of HK\$94,850 (equivalent to approximately RMB79,800) (31 December 2019: HK\$149,400 (equivalent to approximately RMB134,000)) and share premium of approximately HK\$10,452,000 (equivalent to approximately RMB8,797,000) (31 December 2019: HK\$16,464,000 (equivalent to approximately RMB14,748,000)) (before issue expenses).

(b) Share award scheme

The Share Award Scheme was adopted by the Board on 19 January 2018 in order to recognise the contributions by certain employees including certain executive directors of the Company and/or members of the Group (the "Eligible Participant"). Subject to the rules of the Share Award Scheme (the "Scheme Rules"), the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any excluded participant as defined under the Scheme Rules) for participation in the Share Award Scheme as a selected participant (the "Selected Participant"), and determine the number of shares to be granted to the Selected Participant.

The Share Award Scheme shall be valid and effective for a term of 10 years commencing on the date of adoption. Pursuant to the Share Award Scheme, the trustee, Computershare Hong Kong Trustees Limited and any additional or replacement trustee, shall purchase from the open market or subscribe for the relevant number of shares awarded and shall hold such shares on trust for the Selected Participants until they are vested in the relevant Selected Participant in accordance with the provisions of the Share Award Scheme. The Board, through its authorised representative(s), shall cause to pay to the trustee the subscription or purchase price for the shares and the related expenses from the Company's resources.

The Board shall not make any further award of awarded shares which will result in the total number of shares granted under the Share Award Scheme exceeding 5% of the total number of issued Shares of the Company from the date of adoption. If the relevant subscription or purchase would result in the trustee holding in aggregate, more than 5% of the total number of issued shares of the Company as of the adoption date, the trustee shall not subscribe or purchase any further shares.

32. Employee Share Schemes *(continued)*

(b) Share award scheme *(continued)*

On 19 January 2018, the Board resolved to grant an aggregate of 4,393,500 awarded shares to 28 eligible participants and on 18 October 2018, the Board resolved to grant 192,000 awarded shares to an eligible participant under the Share Award Scheme. The awarded shares shall be vested in three tranches in accordance with the following dates: (i) one-third shall be vested on the first anniversary of the date of grant, i.e. 19 January 2019; (ii) one-third shall be vested on the second anniversary of the date of grant, i.e. 19 January 2020; and (iii) the remaining one-third shall be vested on the third anniversary of the date of grant, i.e. 19 January 2021, or an earlier date as approved by the Board.

On 8 April 2019, the Board resolved to grant a total of 2,059,500 awarded shares to 27 eligible participants under the Share Award Scheme. The awarded shares shall be vested in three tranches in accordance with the following dates: (i) one-third shall be vested on the first anniversary of the date of grant, i.e. 8 April 2020; (ii) one-third shall be vested on the second anniversary of the date of grant, i.e. 8 April 2021; and (iii) the remaining one-third shall be vested on the third anniversary of the date of grant, i.e. 8 April 2022, or an earlier date as approved by the Board.

On 14 April 2020, the Board resolved to grant a total of 1,938,000 awarded shares to 36 eligible participants under the Share Award Scheme. The awarded shares shall be vested in three tranches in accordance with the following dates: (i) one-third shall be vested on the first anniversary of the date of grant, i.e. 14 April 2021; (ii) one-third shall be vested on the second anniversary of the date of grant, i.e. 14 April 2022; and (iii) the remaining one-third shall be vested on the third anniversary of the date of grant, i.e. 14 April 2023, or an earlier date as approved by the Board.

The fair value of these awarded shares at the grant date approximated to the market value of the shares which is calculated based on the closing price of the shares as at the date of grant of the awarded shares.

Movements in the number of awarded shares are as follows:

	2020 Number of shares awarded	2019 Number of shares awarded
At 1 January	4,571,500	4,260,000
Granted	1,938,000	2,059,500
Forfeited	(185,500)	(328,000)
Vested	(1,933,500)	(1,420,000)
At 31 December	4,390,500	4,571,500

Under the Share Award Scheme, the Group recognised share-based compensation expenses of approximately RMB18,405,000 (2019: approximately RMB20,226,000) during the year ended 31 December 2020.

32. Employee Share Schemes *(continued)*

(c) Other employee share-based payments

On 24 June 2020, the Company, the then sole shareholder of Happy Harmony International Limited (“Happy Harmony”), which in turn holds one ordinary share of KWG Living, (i) transferred the entire issued share capital of Happy Harmony (the “Transferred Share”) to an employee of the Company (the Employee), at a cash consideration of US\$6,075,000 (the “Consideration”) and (ii) subscribed 35 shares of KWG Living. The Consideration was fully settled on 24 June 2020 and has been funded by an interest-free loan from Mr. Kong Jianmin (the “Loan”), the Company’s controlling shareholder. Upon completion of the aforesaid share transfer and immediately after the subscription of 35 shares of KWG Living by the Company at par on 24 June 2020, the Company and the Employee through Happy Harmony held 97.22% and 2.78% equity interests in KWG Living, respectively. The share transferred to the Employee constitutes a share-based payment arrangement under HKFRS 2 *Share-based Payment* and the share-based payment expense which represents the difference of RMB320,000 between (i) the fair value of the Transferred Share and (ii) the Consideration of US\$6,075,000 was charged to profit or loss as an expense in full immediately upon the completion of the share transfer with a corresponding increase in capital reserve of approximately RMB320,000 during the year. The deemed interest expense of the Loan to the Employee, calculated based on the outstanding loan principal and a general market interest rate that the Employee could possibly obtain from financial institutions in Hong Kong on an arm’s length basis as of the date of the loan agreement entered into between Mr. Kong Jianmin and the Employee, was charged to profit or loss with a corresponding increase in employee share-based compensation reserve of approximately RMB424,000 during the year to reflect the contribution to the Company from Mr. Kong Jianmin.

33. Reserves

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 128 to 129 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, the Company’s subsidiaries which are registered in the PRC shall appropriate a certain percent of profit for the year (after offsetting any prior years’ losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use.

34. Investments in Joint Operations

The Group has entered into three (2019: three) joint venture arrangements in the form of joint operations with certain parties, to jointly undertake three (2019: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2020, the aggregate amounts of assets and liabilities recognised in respect of these joint operations were as follows:

	2020 RMB’000	2019 RMB’000
Assets	4,281,554	4,321,776
Liabilities	(121,337)	(123,139)

35. Business Combinations

Acquisition of Subsidiaries

- (i) Before 1 November 2020, the Group held 30% equity interests of Suzhou Fujing Real Estate Development Limited ("Suzhou Fujing")[#] and accounted for Suzhou Fujing as an associate of the Group. Suzhou Fujing is principally engaged in property development. On 1 November 2020, the Group entered into an agreement with a third party shareholder, which has 20% equity interests of Suzhou Fujing. Pursuant to the agreement, the shareholder agreed to act in concert with the Group for all resolutions of the board of shareholders and the board of directors of Suzhou Fujing. The board of directors of Suzhou Fujing has the rights to decide all significant matters of Suzhou Fujing and all significant resolutions of Suzhou Fujing shall be approved by over two-thirds of the directors of Suzhou Fujing. The Group controls seven of nine seats in the board of directors of Suzhou Fujing through the aforesaid arrangement. Accordingly, the Group has obtained control over Suzhou Fujing and has been accounted for Suzhou Fujing as a subsidiary of the Group since then.

The fair values of the identifiable assets and liabilities of Suzhou Fujing as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Deferred tax assets	6,858
Property, plant and equipment	235
Property under development	3,095,000
Tax recoverables	116,449
Prepayments, other receivables and other assets	82,282
Cash and cash equivalents	527,913
Trade payables	(56,544)
Other payables and accruals	(2,551,699)
Deferred tax liabilities	(6,539)
Interest-bearing bank loans	(1,050,000)
Total identifiable net assets at fair value	163,955
Non-controlling interests	(114,769)
Gain on remeasurement of the pre-existing interest in an associate recognised in other income and gains in the consolidated statement of profit or loss	(5,885)
	43,301
Satisfied by	
Equity interest in Suzhou Fujing held by the Group prior to the acquisition	43,301

An analysis of the net cash inflow in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and cash equivalents acquired	527,913
Net inflow of cash and cash equivalents included in cash flows from investing activities	527,913

Since the acquisition, Suzhou Fujing contributed revenue and profit of approximately RMB259,262,000 and RMB42,679,000, respectively to the Group.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 2020 would have been approximately RMB29,818,295,000 and RMB6,666,095,000, respectively.

[#] The English name of the company referred to in the financial statements represent management's best effort to translate the Chinese name of the company, as no English name has been registered.

35. Business Combination *(continued)*

Acquisition of Subsidiaries *(continued)*

- (ii) Before 3 October 2020, the Group held 50% equity interests in Hangzhou Zhiyan Investment Limited ("Hangzhou Zhiyan")[#] and accounted for as a joint venture of the Group. Hangzhou Zhiyan is principally engaged in property development. On 3 October 2020, the shareholders agreed to amend the articles of association, pursuant to which, the resolutions of the board of directors should be approved by not less than two-thirds of the directors of Hangzhou Zhiyan. The Group obtained control over Hangzhou Zhiyan through two of three seats in the board of directors of Hangzhou Zhiyan and accounted for Hangzhou Zhiyan as a subsidiary of the Group since then.

The fair values of the identifiable assets and liabilities of Hangzhou Zhiyan as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Deferred tax assets	4,299
Property, plant and equipment	420
Property under development	4,265,000
Prepayments, other receivables and other assets	32,440
Cash and cash equivalents	10,131
Other payables and accruals	(1,163,789)
Trade payables	(246,310)
Deferred tax liabilities	(114,897)
Interest-bearing bank loans	(2,290,000)
Total identifiable net assets at fair value	497,294
Non-controlling interests	(248,647)
Gain on remeasurement of the pre-existing interest in a joint venture recognised in other income and gains in the consolidated statement of profit or loss	(72,346)
	176,301
Satisfied by	
Equity interest in Hangzhou Zhiyan held by the Group prior to the acquisition	176,301

An analysis of the net cash inflow in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash and cash equivalents acquired	10,131
Net inflow of cash and cash equivalents included in cash flows from investing activities	10,131

Since the acquisition, Hangzhou Zhiyan contributed revenue and profit of approximately RMB390,538,000 and RMB11,065,000, respectively to the Group.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 2020 would have been approximately RMB29,742,063,000 and RMB6,654,896,000, respectively.

[#] The English name of the company referred to in the financial statements represent management's best effort to translate the Chinese name of the company, as no English name has been registered.

35. Business Combination *(continued)*

Acquisition of Subsidiaries *(continued)*

- (iii) Before 18 December 2020, the Group held 51% equity interests of Foshan Hongsheng Real Estate Development Limited ("Foshan Hongsheng")[#] and accounted for as a joint venture of the Group as all significant operating and financial activities need to be decided by all the joint venture partners. Foshan Hongsheng is principally engaged in property development. On 18 December 2020, the shareholders amended articles of association, pursuant to which, the resolutions of the board of shareholders of Foshan Hongsheng should be approved by not less than 50% shareholders, the Group obtained control over Foshan Hongsheng and accounted for Foshan Hongsheng as a subsidiary of the Group since then.

The fair values of the identifiable assets and liabilities of Foshan Hongsheng as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Deferred tax assets	46,339
Property, plant and equipment	154
Property under development	4,145,367
Prepayments, other receivables and other assets	234,236
Trade receivables	55,154
Cash and cash equivalents	318,275
Other payables and accruals	(1,591,482)
Trade payables	(144,685)
Tax payable	(19,722)
Deferred tax liabilities	(138,412)
Interest-bearing bank loans	(1,450,000)
Total identifiable net assets at fair value	1,455,224
Non-controlling interests	(713,060)
Gain on remeasurement of the pre-existing interest in a joint venture recognised in other income and gains in the consolidated statement of profit or loss	(119,138)
	623,026
Satisfied by	
Equity interest in Foshan Hongsheng held by the Group prior to the acquisition	623,026

An analysis of the net cash inflow in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and cash equivalents acquired	318,275
Net inflow of cash and cash equivalents included in cash flows from investing activities	318,275

Since the acquisition, Foshan Hongsheng contributed revenue and profit of approximately RMB1,253,970,000 and RMB106,142,000, respectively to the Group.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 2020 would have been approximately RMB29,840,445,000 and RMB6,613,469,000, respectively.

[#] The English name of the company referred to in the financial statements represent management's best effort to translate the Chinese name of the company, as no English name has been registered.

Notes to Financial Statements

31 December 2020

35. Business Combination (continued)

Acquisition of Subsidiaries (continued)

- (iv) Before 30 December 2020, the Group held 51% equity interests in Zhaotong Jingbang Trading Limited ("Zhaotong Jingbang")[#] and accounted for Zhaotong Jingbang as a joint venture of the Group. Zhaotong Jingbang is principally engaged in property development. The resolutions of the board of shareholders and board of directors of Zhaotong Jingbang should be approved by all shareholders and directors of Zhaotong Jingbang. On 30 December 2020, the Group entered into an agreement with the third party shareholder, which has 49% equity interests of Zhaotong Jingbang. Pursuant to the agreement, the shareholder agreed to act in concert with the Group for all resolutions of the board of shareholders and the board of directors of Zhaotong Jiangbang. Accordingly, the Group has obtained control over Zhaotong Jingbang and accounted for Zhaotong Jingbang as a subsidiary of the Group since then.

The fair values of the identifiable assets and liabilities of Zhaotong Jingbang as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Deferred tax assets	3,672
Property, plant and equipment	43
Property under development	1,103,000
Tax recoverable	3,013
Cash and cash equivalents	309,433
Trade payables	(26,977)
Other payables and accruals	(673,490)
Deferred tax liabilities	(84,108)
Interest-bearing bank loans	(382,000)
Total identifiable net assets at fair value	252,586
Non-controlling interests	(123,768)
Gain on remeasurement of the pre-existing interest in a joint venture recognised in other income and gains in the consolidated statement of profit or loss	(128,685)
	133
Satisfied by	
Equity interest in Zhaotong Jingbang held by the Group prior to the acquisition	133

An analysis of the net cash inflow in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and cash equivalents acquired	309,433
Net inflow of cash and cash equivalents included in cash flows from investing activities	309,433

Since the acquisition, Zhaotong Jingbang did not contribute revenue and profit to the Group.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 2020 would have been approximately RMB29,761,349,000 and RMB6,655,520,000, respectively.

[#] The English name of the company referred to in the financial statements represent management's best effort to translate the Chinese name of the company, as no English name has been registered.

35. Business Combination *(continued)*

Acquisition of Subsidiaries *(continued)*

- (v) During the year ended 31 December 2019, the Group acquired interests in two companies from third parties. These acquired companies' principal activities are respectively engaged in education and property management.

The fair values of the identifiable assets and liabilities of these acquired companies as at the dates of acquisitions were as follows:

	Fair value recognised on acquisitions RMB'000
Total considerations	205,507
Total recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	46
Other non-current asset	211,928
Deferred tax assets	73
Properties under development	474
Prepayments, other receivables and other assets	44,512
Trade receivables	11,011
Cash and cash equivalents	28,830
Trade payables	(4,459)
Other payables and accruals	(59,069)
Tax payables	(2,224)
Deferred tax liabilities	(21,420)
Total identifiable net assets at fair value	209,702
Non-controlling interests	(4,195)
Satisfied by cash	165,507
Satisfied by other payables	40,000

An analysis of the cash flows in respect of the acquisitions of these two subsidiaries is as follows:

	RMB'000
Cash considerations	(165,507)
Cash and cash equivalents acquired	28,830
Net outflow of cash and cash equivalents included in cash flows from investing activities	(136,677)

Since the acquisitions, these two companies contributed revenue and profit of approximately RMB98,822,000 and RMB15,498,000, respectively, to the Group.

Had the combinations taken place at the beginning of the year 2019, the revenue of the Group and the profit of the Group for the year ended 2019 would have been approximately RMB24,965,680,000 and RMB10,058,319,000, respectively.

35. Business Combination (continued)**Acquisition of Subsidiaries** (continued)

- (vi) During the year ended 31 December 2019, the Group acquired interests in two companies from third parties. These acquired companies' principal activities are property development.

The fair values of the identifiable assets and liabilities of these acquired companies as at the dates of acquisitions were as follows:

	Fair value recognised on acquisitions RMB'000
Total considerations	169,250
Total recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	821
Deferred tax assets	36,379
Properties under development	4,369,012
Prepayments, other receivables and other assets	3,058,607
Trade receivables	2,583
Cash and cash equivalents	387,370
Trade payables	(297,224)
Other payables and accruals	(4,573,040)
Tax payables	(745,644)
Interest-bearing bank and other borrowings	(651,340)
Deferred tax liabilities	(296,810)
Total identifiable net assets at fair value	1,290,714
Gain on remeasurement of the pre-existing interest in a joint venture recognised in other income and gains in the consolidated statement of profit or loss	(791,218)
	499,496
Satisfied by cash	169,250
Equity interests in the companies held by the Group prior to the acquisitions	330,246

An analysis of the cash flows in respect of the acquisitions of these two subsidiaries is as follows:

	RMB'000
Cash considerations	(169,250)
Cash and cash equivalents acquired	387,370
Net inflow of cash and cash equivalents included in cash flows from investing activities	218,120

Since the acquisitions, these two companies contributed revenue and profit of approximately RMB1,599,673,000 and RMB407,180,000, respectively, to the Group.

Had the combinations taken place at the beginning of the year 2019, the revenue of the Group and the profit of the Group for the year ended 2019 would have been approximately RMB25,004,489,000 and RMB10,040,273,000, respectively.

36. Derecognition of Subsidiaries

- (i) During the year ended 31 December 2020, the Group entered into an agreement with Guangzhou Qinzhi Investment Development Limited (“Guangzhou Qinzhi”)*, pursuant to which the Group transferred its 20% equity interest of Guangzhou Hejing Hengyu Zhiye Development Limited (“Guangzhou Hejing Hengyu”)* to Guangzhou Qinzhi for a cash consideration of RMB10,000,000. According to the agreement, all significant resolutions of Guangzhou Hejing Hengyu, a wholly-owned subsidiary of the Company before entering into the agreement, should be approved by the Group and Guangzhou Qinzhi unanimously, and hence the Group lost control over Guangzhou Hejing Hengyu, and Guangzhou Hejing Hengyu has been accounted for as a joint venture of the Group since then.

The carrying values of the assets and liabilities on the date of derecognition of the subsidiary were as follows:

	RMB'000
Net assets derecognised of:	
Deferred tax assets	45
Property under development	4,336,772
Prepayments, other receivables and other assets	1,456,299
Cash and bank balances	1,223
Trade payables	(12,763)
Other payables and accruals	(2,983,784)
Tax payables	(1,611)
Interest-bearing bank loans	(2,800,000)
Net asset value derecognised	(3,819)
Gain on derecognition of Guangzhou Hejing Hengyu	324,700
Investment in a joint venture	310,881
Satisfied by cash	10,000

An analysis of the net cash inflow of cash and cash equivalents in respect of the derecognition of Guangzhou Hejing Hengyu is as follows:

	RMB'000
Cash consideration	10,000
Cash and cash equivalents of Guangzhou Hejing Hengyu derecognised of	(1,223)
Net inflow of cash and cash equivalents in respect of the derecognition of Guangzhou Hejing Hengyu	8,777

* The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

36. Derecognition of Subsidiaries *(continued)*

- (ii) During the year ended 31 December 2020, the Group entered into an agreement with Guangzhou Fangyuan Leqin Industrial Investment Limited (“Guangzhou Fangyuan Leqin”)[#], pursuant to which, Guangzhou Fangyuan Leqin injected of registered capital with a cash consideration of RMB62,000,000 to obtain 20% of a fully diluted equity interest in Suzhou Jiajing Real Estate Development Limited (“Suzhou Jiajing”)[#], a wholly-owned subsidiary of the Company before the capital injection. Subsequent to the capital injection by Guangzhou Fangyuan Leqin, all significant resolutions of Suzhou Jiajing, shall be approved by the Group and Guangzhou Fangyuan Leqin unanimously, and hence the Group has lost control over Suzhou Jiajing, and accordingly, Suzhou Jiajing has been accounted for as a joint venture of the Group since then.

The carrying values of the assets and liabilities on the date of derecognition of the subsidiary were as follows:

	RMB'000
Net assets derecognised:	
Deferred tax assets	725
Property, plant and equipment	68
Interest in a joint venture	75,126
Property under development	902,881
Prepayments, other receivables and other assets	4,474,777
Tax recoverables	26,025
Trade receivables	10,026
Cash and bank balances	54,711
Trade payables	(193,531)
Other payables and accruals	(3,183,729)
Deferred tax liabilities	(149)
Interest-bearing bank loans	(2,106,530)
Net asset value derecognised	60,400
Gain on derecognition of Suzhou Jiajing	130,065
Investment in a joint venture	190,465

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Suzhou Jiajing is as follows:

	RMB'000
Cash consideration	-
Cash and cash equivalents derecognised	(54,711)
Net outflow of cash and cash equivalents in respect of the derecognition of Suzhou Jiajing	(54,711)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of the company, as no English names have been registered.

36. Derecognition of Subsidiaries *(continued)*

- (iii) During the year ended 31 December 2019, the Group entered into an agreement with Guangzhou Zhenli Investment Development Limited (“Guangzhou Zhenli”)[#]. According to the agreement, all significant resolutions of Hefei Mingyu Real Estate Development Limited (“Hefei Mingyu”)[#], a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhenli unanimously, and hence the Group has no control over Hefei Mingyu, and accordingly, Hefei Mingyu has been accounted for as a joint venture of the Group since then.

Details of the net assets derecognised as at the date of derecognition and financial impacts were summarised below:

	RMB'000
Net assets derecognised:	
Deferred tax assets	3,335
Properties under development	2,576,609
Prepayments, deposits and other receivables	661,741
Tax recoverable	1,564
Cash and cash equivalents	42,065
Trade payables	(13,734)
Other payables and accruals	(2,225,793)
Interest-bearing bank and other borrowings	(999,990)
Net asset value derecognised	45,797
Gain on derecognition of Hefei Mingyu	128,339
Investment in a joint venture	174,136

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu is as follows:

	RMB'000
Cash and cash equivalents derecognised	(42,065)
Net outflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu	(42,065)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

36. Derecognition of Subsidiaries *(continued)*

- (iv) During the year ended 31 December 2019, the Group entered into an agreement with Guangzhou Zhanyu Investment Development Limited ("Guangzhou Zhanyu")#. According to the agreement, all significant resolutions of Wenzhou Jinxuan Real Estate Development Limited ("Wenzhou Jinxuan")#, a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhanyu unanimously, and hence the Group has no control over Wenzhou Jinxuan, and accordingly, Wenzhou Jinxuan has been accounted for as a joint venture of the Group since then.

Details of the net assets derecognised as at the date of derecognition and the financial impacts were summarised below:

	RMB'000
Net assets derecognised:	
Deferred tax assets	1,589
Property, plant and equipment	74
Properties under development	1,714,607
Prepayments, deposits and other receivables	697,058
Tax recoverables	4,812
Cash and cash equivalents	121,924
Trade payables	(48,912)
Other payables and accruals	(1,924,573)
Interest-bearing bank and other borrowings	(527,510)
Net asset value derecognised	39,069
Gain on derecognition of Wenzhou Jinxuan	85,795
Investment in a joint venture	124,864

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Wenzhou Jinxuan is as follows:

	RMB'000
Cash and cash equivalents derecognised	(121,924)
Net outflow of cash and cash equivalents in respect of the derecognition of Wenzhou Jinxuan	(121,924)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

36. Derecognition of Subsidiaries *(continued)*

- (v) During the year ended 31 December 2019, the Group entered into an agreement with Guangzhou Zhenli[#]. According to the agreement, all significant resolutions of Guangxi Junrong Properties Limited (“Guangxi Junrong”)[#], a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhenli unanimously, and hence the Group has no control over Guangxi Junrong, and accordingly, Guangxi Junrong has been accounted for as a joint venture of the Group since then.

Details of the net assets derecognised as at the date of derecognition and the financial impacts were summarised below:

	RMB'000
Net assets derecognised:	
Deferred tax assets	5,622
Property, plant and equipment	80
Properties under development	2,061,338
Prepayments, deposits and other receivables	375,162
Tax recoverables	7,138
Cash and cash equivalents	244,431
Trade payables	(89,933)
Other payables and accruals	(1,561,385)
Deferred tax liabilities	(1,191)
Interest-bearing bank and other borrowings	(1,051,382)
Net asset value derecognised	(10,120)
Gain on derecognition of Guangxi Junrong	477,227
Investment in a joint venture	467,107

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Guangxi Junrong is as follows:

	RMB'000
Cash and cash equivalents derecognised	(244,431)
Net outflow of cash and cash equivalents in respect of the derecognition of Guangxi Junrong	(244,431)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

Notes to Financial Statements

31 December 2020

36. Derecognition of Subsidiaries *(continued)*

- (vi) During the year ended 31 December 2019, the Group entered into an agreement with Shenzhen Tongchuang Group Limited (“Shenzhen Tongchuang”)[#] and Shenzhen Xiaoma Huanteng Investment Development Limited (“Shenzhen Xiaoma Huanteng”)[#]. According to the agreement, all significant resolutions of Shenzhen Chuangshihe Industrial Limited (“Shenzhen Chuangshihe”)[#], a 51% owned subsidiary of the Company before entering into the agreement, shall be approved by the Group, Shenzhen Tongchuang and Shenzhen Xiaoma Huanteng unanimously, and hence the Group has no control over Shenzhen Chuangshihe, and accordingly, Shenzhen Chuangshihe has been accounted for as a joint venture of the Group since then.

Details of the net assets derecognised as at the date of derecognition and the financial impacts were summarised below:

	RMB'000
Net assets derecognised:	
Property, plant and equipment	6
Deferred tax assets	2,054
Properties under development	3,431,676
Trade receivables	30
Prepayments, deposits and other receivables	758,868
Cash and cash equivalents	6,055
Trade payables	(31)
Other payables and accruals	(1,103,102)
Interest-bearing bank and other borrowings	(1,000,000)
Net asset value derecognised	2,095,556
Non-controlling interest	(1,026,822)
Investment in a joint venture	1,068,734

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Shenzhen Chuangshihe is as follows:

	RMB'000
Cash and cash equivalents derecognised	(6,055)
Net outflow of cash and cash equivalents in respect of the derecognition of Shenzhen Chuangshihe	(6,055)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

36. Derecognition of Subsidiaries *(continued)*

- (vii) During the year ended 31 December 2019, the Group derecognised its interests in a number of subsidiaries.

Details of the net assets derecognised as at the date of derecognitions and the financial impacts were summarised below:

	RMB'000
Net assets derecognised:	
Deferred tax assets	781
Properties under development	6,236,901
Prepayments, other receivables and other assets	181,980
Cash and cash equivalents	766,110
Trade payables	(701)
Other payables and accruals	(5,797,026)
Tax payables	(154)
Interest-bearing bank and other borrowings	(1,180,000)
Net asset value derecognised	207,891
Non-controlling interests	(148,508)
Investments in joint ventures	59,383

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of these companies is as follows:

	RMB'000
Cash and cash equivalents derecognised	(766,110)
Net outflow of cash and cash equivalents in respect of the derecognition of these companies	(766,110)

37. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group had non-cash reductions of right-of-use assets and lease liabilities of approximately RMB202,662,000 and approximately RMB208,226,000, respectively, in respect of lease arrangements for buildings and investment properties (2019: additions of approximately RMB118,088,000 and approximately RMB146,789,000).

Notes to Financial Statements

31 December 2020

37. Notes to the Consolidated Statement of Cash Flows *(continued)*

(b) Changes in liabilities arising from financing activities

	Notes	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Other payables and accruals RMB'000
At 1 January 2020		85,577,550	2,125,771	2,311,323
Changes from financing cash flows		(6,067,775)	(265,061)	(8,191,752)
New and expired leases		-	(201,542)	-
2019 final dividends payable	12, 31	-	-	1,334,360
2020 interim dividends payable	12	-	-	1,271,220
Shares issued as scrip dividend	31	-	-	(11,901)
Interest expense		66,629	124,148	5,748,914
Foreign exchange movement		(1,981,259)	-	-
Acquisition of subsidiaries		5,172,000	-	-
Derecognition of subsidiaries		(4,906,530)	-	-
Liabilities included in the discontinued operation	11	-	(6,684)	-
At 31 December 2020		77,860,615	1,776,632	2,462,164
	Notes	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Other payables and accruals RMB'000
At 1 January 2019		77,463,709	2,097,472	2,019,701
Changes from financing cash flows		15,144,709	(246,752)	(7,890,965)
New leases		-	146,789	-
2018 final dividends payable	31	-	-	983,962
2019 interim dividends payable	12, 31	-	-	1,020,309
Shares issued as scrip dividend	31	-	-	(5,326)
Interest expense		26,120	128,262	6,183,642
Foreign exchange movement		763,143	-	-
Acquisition of subsidiaries		651,340	-	-
Due to joint ventures		(3,712,589)	-	-
Derecognition of subsidiaries		(4,758,882)	-	-
At 31 December 2019		85,577,550	2,125,771	2,311,323

37. Notes to the Consolidated Statement of Cash Flows *(continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	5,974	68,847
Within financing activities	265,061	246,752
	271,035	315,599

38. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	2020 RMB'000	2019 RMB'000
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties	(a)	20,271,662	16,765,473
Guarantees given to banks in connection with bank loans granted to joint ventures and associates	(b)	32,939,744	29,362,515
		53,211,406	46,127,988

Notes:

- (a) As at 31 December 2020 and 2019, the Group provided guarantees to certain banks in respect of mortgages granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled to, among others, take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2020 and 2019 for the guarantees.

- (b) As at 31 December 2020, the banking loans guaranteed by the Group to joint ventures and associates were utilised to the extent of approximately RMB32,939,744,000 (2019: approximately RMB29,362,515,000).

Notes to Financial Statements

31 December 2020

39. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking and other borrowing facilities granted to the Group:

	Notes	2020 RMB'000	2019 RMB'000
Property, plant and equipment	14	3,031,614	2,743,081
Investment properties	15	7,291,926	13,506,919
Land use rights	16	741,252	432,122
Properties under development	20	13,741,498	13,514,324
Completed properties held for sale	21	3,031,956	3,667,565
Time deposits		-	756,710
		27,838,246	34,620,721

- (b) As at 31 December 2020 and 2019, the equity interests of certain subsidiaries of the Group were pledged to certain banks for the loans granted to the Group.
- (c) As at 31 December 2020 and 2019, the senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their equity interests.
- (d) As at 31 December 2020, the domestic corporate bonds of approximately RMB12,568,748,000 (2019: approximately RMB16,433,948,000) were guaranteed by the Company.

40. Commitments

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	724,360	371,999
Properties being developed by the Group for sale	8,303,602	10,535,392
Investment properties	464,421	530,916
	9,492,383	11,438,307

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

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for	5,816,841	7,948,847

41. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

- (a) During the year ended 31 December 2020, the Group provided project management services to certain joint ventures and associates of the Group for a total cash consideration of approximately RMB420,140,000 (2019: approximately RMB366,105,000), which was recognised as other income of the Group. The management fee income was determined at rates mutually agreed between the Group and the joint ventures and associates.
- (b) During the year ended 31 December 2020, the Group provided advances to certain joint ventures and associates at the interest rates of 4.4% to 15% (2019: 4.4% to 12.0%) per annum. The interest income of approximately RMB311,913,000 (2019: approximately RMB247,885,000), which was recognised as other income of the Group, was determined at rates mutually agreed between the Group and the joint ventures and associates.
- (c) During the year ended 31 December 2020, the Group leased some properties to related parties, of which an executive director of the Company is the ultimate beneficial owner, for a total cash consideration of approximately RMB29,579,000 (2019: approximately RMB9,789,000), which was recognised as rental income of the Group. The income was determined at rates mutually agreed between the Group and this executive director.

Notes to Financial Statements

31 December 2020

41. Related Party Transactions *(continued)*

- (d) KWG Living Group became a related party of the Company since its listing of the ordinary shares of KWG Living on the Main Board of The Stock Exchange of Hong Kong Limited on 30 October 2020 and the aggregate amounts set out below with KWG Living Group are for the transactions involved during the period from 30 October 2020 to 31 December 2020.

	RMB'000
Rental income from KWG Living Group	
Property Lease:	
Properties	7
Car parking lots	430
	437
Service fees to KWG Living Group	
Residential Property Management Services:	
Residential pre-sale management services	17,723
Residential property management services	21,619
	39,342
Property Agency Services	64,778
Commercial Property Management Services:	
Commercial pre-sale management services	4,113
Commercial property management services	6,399
	10,512
Commercial Operational and Value-added Services:	
Commercial operational services	10,238
Commercial value-added services	5,706
	15,944

Note: These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

41. Related Party Transactions *(continued)***(e) Other transactions with related parties**

Details of guarantees given by the Group to banks in connection with bank loans granted to joint ventures and associates are included in note 38 to the financial statements.

(f) Outstanding balances with related parties

Details of the Group's balances with its associates and joint ventures are included in notes 18 and 19 respectively to the financial statements.

(g) Compensation of key management personnel of the Group

	2020 RMB'000	2019 RMB'000
Short term employee benefits	28,285	33,226
Post-employment benefits	229	630
Share-based compensation	5,198	6,690
Total compensation paid to key management personnel	33,712	40,546

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

The related party transaction in respect of items (c) and (d) above also constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements

31 December 2020

42. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets - Financial assets at amortised cost

	Notes	2020 RMB'000	2019 RMB'000
Trade receivables	22	1,914,579	2,166,759
Financial assets included in prepayments, other receivables and other assets	23	5,154,138	3,991,696
Due from a joint venture	19	30,004	30,062
Restricted cash	25	3,944,716	5,356,141
Cash and cash equivalents	25	40,635,765	51,377,864
		51,679,202	62,922,522

Financial liabilities - Financial liabilities at amortised cost

	Notes	2020 RMB'000	2019 RMB'000
Trade and bills payables	26	13,165,515	9,072,301
Lease liabilities	17	1,776,632	2,125,771
Financial liabilities included in other payables and accruals	27	15,448,894	11,308,048
Due to joint ventures	19	35,207,964	37,742,306
Due to associates	18	3,244,654	1,345,495
Interest-bearing bank and other borrowings	28	77,860,615	85,577,550
		146,704,274	147,171,471

43. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings	77,860,615	85,577,550	78,879,979	86,160,688

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, lease liabilities, financial liabilities included in other payables and accruals, amounts due from/to joint ventures and due to associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the management of the Group. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management of the Group. The valuation process and results are discussed with the management of the Group twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption were used to estimate the fair values:

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2020 was assessed to be insignificant.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2020 and 2019.

During the years ended 31 December 2020 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Notes to Financial Statements

31 December 2020

43. Fair Value and Fair Value Hierarchy of Financial Instruments

(continued)

Liabilities for which fair values are disclosed:

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	-	78,879,979	-	78,879,979

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	-	86,160,688	-	86,160,688

44. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, other receivables and other assets, and amounts due from a joint venture. The financial liabilities of the Group mainly include trade and bills payables, lease liabilities, other payables and accruals, interest-bearing bank and other borrowings, amounts due to joint ventures and amounts due to associates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management and focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The Group's exposure to these risks is kept to a minimum. Management closely monitors the risk exposure and will consider using derivatives and other instruments to hedge significant risk exposure should the need arise. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in Mainland China and Hong Kong, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

44. Financial Risk Management Objectives and Policies *(continued)*

Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2020		
RMB	200	(410,003)
Hong Kong dollar	200	(21,757)
United States dollar	200	(22,052)
RMB	(200)	410,003
Hong Kong dollar	(200)	21,757
United States dollar	(200)	22,052
<hr/>		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
<hr/>		
2019		
RMB	200	(423,249)
Hong Kong dollar	200	(59,857)
United States dollar	200	(41,716)
RMB	(200)	423,249
Hong Kong dollar	(200)	59,857
United States dollar	(200)	41,716

44. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk

The Group's most businesses are mainly located in Mainland China and the transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's foreign currency exposures mainly arise from interest-bearing bank and other borrowings and bank balances denominated in currencies other than the units' functional currencies as at 31 December 2020 and 31 December 2019. The Group considers the foreign currency risk between Hong Kong dollar and United States dollar is not material as the exchange rate between these two currencies is pegged.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
2020			
If RMB weakens against Hong Kong dollar	(5)	N/A	365,265
If RMB strengthens against Hong Kong dollar	5	N/A	(365,265)
If RMB weakens against United States dollar	N/A	(5)	9,520
If RMB strengthens against United States dollar	N/A	5	(9,520)
	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
2019			
If RMB weakens against Hong Kong dollar	(5)	N/A	418,083
If RMB strengthens against Hong Kong dollar	5	N/A	(418,083)
If RMB weakens against United States dollar	N/A	(5)	13,555
If RMB strengthens against United States dollar	N/A	5	(13,555)

44. Financial Risk Management Objectives and Policies *(continued)***Credit risk**

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020 and 31 December 2019. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
2020					
Trade receivables	-	-	-	1,914,579	1,914,579
Financial assets included in prepayments, other receivables and other assets					
– Normal*	5,154,138	-	-	-	5,154,138
Due from a joint venture	30,004	-	-	-	30,004
Restricted bank balances					
– Not yet past due	3,944,716	-	-	-	3,944,716
Cash and cash equivalents					
– Not yet past due	40,635,765	-	-	-	40,635,765
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties					
– Not yet past due	20,271,662	-	-	-	20,271,662
Guarantees given to banks in connection with bank loans granted to joint ventures and associates					
– Not yet past due	32,939,744	-	-	-	32,939,744
	102,976,029	-	-	1,914,579	104,890,608

Notes to Financial Statements

31 December 2020

44. Financial Risk Management Objectives and Policies *(continued)*

Credit risk *(continued)*

2019	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables	-	-	-	2,166,759	2,166,759
Financial assets included in prepayments, other receivables and other assets					
– Normal*	3,991,696	-	-	-	3,991,696
Due from a joint venture	30,062	-	-	-	30,062
Restricted bank balances					
– Not yet past due	5,356,141	-	-	-	5,356,141
Cash and cash equivalents					
– Not yet past due	51,377,864	-	-	-	51,377,864
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties					
– Not yet past due	16,765,473	-	-	-	16,765,473
Guarantees given to banks in connection with bank loans granted to joint ventures and associates					
– Not yet past due	29,362,515	-	-	-	29,362,515
	106,883,751	-	-	2,166,759	109,050,510

* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generated from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expects that the Group's net cash flows from operating activities and additional bank and other borrowings will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be any significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

44. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2020					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	-	6,076,551	23,508,724	47,201,550	14,075,448	90,862,273
Lease liabilities	-	57,020	180,988	757,220	1,324,831	2,320,059
Trade and bills payables	13,165,515	-	-	-	-	13,165,515
Other payables and accruals	15,448,894	-	-	-	-	15,448,894
Due to joint ventures	35,207,964	-	-	-	-	35,207,964
Due to associates	3,244,654	-	-	-	-	3,244,654
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties	20,271,662	-	-	-	-	20,271,662
Guarantees given to banks in connection with bank loans granted to joint ventures and associates	32,939,744	-	-	-	-	32,939,744
	120,278,433	6,133,571	23,689,712	47,958,770	15,400,279	213,460,765

	2019					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	-	2,907,134	26,098,730	60,493,797	10,860,468	100,360,129
Lease liabilities	-	62,393	194,016	886,218	1,766,368	2,908,995
Trade and bills payables	9,072,301	-	-	-	-	9,072,301
Other payables and accruals	11,308,048	-	-	-	-	11,308,048
Due to joint ventures	37,742,306	-	-	-	-	37,742,306
Due to associates	1,345,495	-	-	-	-	1,345,495
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties	16,765,473	-	-	-	-	16,765,473
Guarantees given to banks in connection with bank loans granted to joint ventures and associates	29,362,515	-	-	-	-	29,362,515
	105,596,138	2,969,527	26,292,746	61,380,015	12,626,836	208,865,262

44. Financial Risk Management Objectives and Policies *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank and other borrowings net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the end of the reporting periods were as follows:

	2020 RMB'000	2019 RMB'000
Net borrowings	33,280,134	28,843,545
Total equity	53,916,691	38,242,591
Gearing ratio	61.7%	75.4%

45. Comparative Amounts

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 11).

As further explained in note 2.2 to the financial statements, due to Policy Change during the current year, the presentation of certain items in the consolidated statement of cash flows has been revised to comply with the new accounting policy. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

46. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	52,067	43,417
Interests in subsidiaries	32,892,729	25,475,332
Interests in joint ventures	10,962,238	10,925,047
Total non-current assets	43,907,034	36,443,796
CURRENT ASSETS		
Prepayments, other receivables and other assets	295,786	229,678
Due from subsidiaries	6,250,851	6,653,268
Cash and cash equivalents	686,229	4,384,582
Total current assets	7,232,866	11,267,528
CURRENT LIABILITIES		
Trade payables	11,884	14,025
Other payables and accruals	3,757,256	1,852,122
Due to joint ventures	4,810,732	3,595,348
Interest-bearing bank and other borrowings	11,522,598	7,964,107
Total current liabilities	20,102,470	13,425,602
NET CURRENT LIABILITIES	(12,869,604)	(2,158,074)
TOTAL ASSETS LESS CURRENT LIABILITIES	31,037,430	34,285,722
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	28,863,612	33,799,848
Other payables and accruals	167,045	152,992
Deferred tax liabilities	76,033	-
Total non-current liabilities	29,106,690	33,952,840
NET ASSETS	1,930,740	332,882
EQUITY		
Issued capital	304,474	304,148
Treasury shares	(1,723)	(176)
Reserves (note)	1,627,989	28,910
TOTAL EQUITY	1,930,740	332,882

Notes to Financial Statements

31 December 2020

46. Statement of Financial Position of the Company (continued)

Note:

A summary to the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2019		3,653,876	308,006	(1,106,179)	28,776	(1,274,185)	1,610,294
Final 2018 dividend declared	31	(983,962)	-	-	-	-	(983,962)
Share-based compensation expenses		-	-	-	21,234	-	21,234
Shares issued as scrip dividend during the year	31	5,263	-	-	-	-	5,263
Vested awarded shares transferred to employees	31	15,310	-	-	(15,435)	-	(125)
Interim 2019 dividend	31	(1,020,309)	-	-	-	-	(1,020,309)
Profit for the year		-	-	-	-	578,898	578,898
Exchange differences on translation into presentation currency		-	-	(182,383)	-	-	(182,383)
At 31 December 2019 and 1 January 2020		1,670,178	308,006	(1,288,562)	34,575	(695,287)	28,910
Share options exercised	31	4,724	-	-	(807)	-	3,917
Share-based compensation expenses	32	-	-	-	19,487	-	19,487
Vested awarded shares transferred to employees	31	19,251	-	-	(19,425)	-	(174)
Shares issued as scrip dividend during the year	31	11,817	-	-	-	-	11,817
Final 2019 dividend declared	31	(1,334,360)	-	-	-	-	(1,334,360)
Interim 2020 dividend	31	(371,610)	-	-	-	(899,610)	(1,271,220)
Profit for the year		-	-	-	-	3,815,720	3,815,720
Exchange differences on translation into presentation currency		-	-	728,918	-	-	728,918
Distribution in specie	11	-	-	-	-	(375,026)	(375,026)
At 31 December 2020		-	308,006	(559,644)	33,830	1,845,797	1,627,989

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

Independent Auditor's Report



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of KWG Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 99 to 218, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("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 ("HKSA") 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.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Revaluation of investment properties</i></p> <p>Investment properties of the Group are stated at fair value at the end of each reporting period, which comprise completed investment properties, investment properties under construction and right-of-use assets. Changes in fair values of investment properties are recorded in profit or loss for the year in which they arise. As at 31 December 2019, the carrying amount of investment properties of the Group was approximately RMB27,263,329,000.</p> <p>The Group's investment properties are revalued individually at the end of each reporting period by independent professional valuers which involves significant estimations and assumptions, including market rent and capitalisation rates, and the fair values of the investment properties are sensitive to these management's estimates and assumptions.</p> <p>Relevant disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.</p>	<p>The audit procedures we performed on the revaluation of investment properties, among others, include the following:</p> <ul style="list-style-type: none"> • we obtained an understanding of the work of the independent professional valuers engaged by the Company, considered the objectivity, independence and expertise of the valuer; • we involved our valuation specialists to evaluate the valuation techniques used and tested the underlying key estimations and assumptions for selected samples through enquiry with management and by reference to the historical information and open market information; and • we assessed the adequacy of disclosures in relation to the revaluation of investment properties, including fair value hierarchy and the valuation techniques used and the key inputs to the valuation of investment properties.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Recognition of revenue from sales of properties over time</i></p> <p>Revenue from sales of properties is recognised over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, the revenue is recognised at a point in time when the buyer obtains control of the completed property. For the year ended 31 December 2019, revenue of the Group from sales of properties was approximately RMB22,761,946,000, of which approximately RMB3,244,213,000 was recognised over time.</p> <p>For the revenue from sales of properties recognised over time, the Group considers whether it has the enforceable right to payment, which depends on the terms of the sales contracts and the interpretation of the applicable laws governing the sales contracts. The Group obtained legal counsel opinion regarding the enforceability of the right to payment to assist making these decisions. Significant judgements were involved in determining whether the Group has the right to payment for performance completed to date or not.</p> <p>In addition, the Group recognises revenue from sales of properties by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs. Significant judgements and estimations are required in determining the accuracy of the estimated total costs and the contract costs incurred up to the end of reporting period and the progress towards complete satisfaction of the performance obligation at the reporting date.</p>	<p>We performed the following audit procedures on the recognition of revenue from sales of properties over time, among others:</p> <ul style="list-style-type: none">• we reviewed, on a sampling basis, the key terms of the sales contracts to assess the Group's rights to payment;• we obtained and reviewed the legal counsel opinion, in particular, the interpretation of the applicable laws and their implication on the assessment of the enforceability of the right to payment;• we assessed the competence, experience and objectivity of the legal counsel;• we checked, on a sampling basis, the revenue from sales of properties recognised over time during the year to the supporting documents including sales contracts and proceeds received;• we evaluated management's basis for cost allocation by checking to the underlying contracts and saleable floor areas;• we checked the estimated total contract costs by comparing the estimated total contract costs to the budget approved by management;



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Recognition of revenue from sales of properties over time (continued)</i>	
<p>Given the involvement of significant judgements and estimations, recognition of revenue from sales of properties over time is considered a key audit matter.</p> <p>Relevant disclosures are included in notes 2.4, 3 and 5 to the consolidated financial statements.</p>	<ul style="list-style-type: none"> • we checked the accuracy of the contract costs incurred up to the end of the reporting period by tracing, on a sampling basis, the costs incurred to the supporting documents; • we checked the mathematical accuracy of the computation of cost allocation and completion progress among properties; and • we assessed the adequacy of disclosures in the notes to the consolidated financial statements in relation to the accounting policies and significant accounting judgements and estimates on recognition of revenue from sales of properties over time.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



To the shareholders of KWG Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

25 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	24,956,261	7,477,471
Cost of sales		(17,090,481)	(5,026,202)
Gross profit		7,865,780	2,451,269
Other income and gains, net	5	2,858,916	2,703,427
Selling and marketing expenses		(1,007,351)	(532,080)
Administrative expenses		(1,726,064)	(1,313,835)
Other operating expenses, net		(4,456)	(1,727)
Fair value gains on investment properties, net	14	3,716,461	1,714,657
Finance costs	7	(1,531,336)	(1,070,059)
Share of profits and losses of:			
Associates		513,706	(279)
Joint ventures		2,933,397	1,439,857
PROFIT BEFORE TAX	6	13,619,053	5,391,230
Income tax expenses	10	(3,562,969)	(1,236,396)
PROFIT FOR THE YEAR		10,056,084	4,154,834
Attributable to:			
Owners of the Company		9,805,813	4,035,415
Non-controlling interests		250,271	119,419
		10,056,084	4,154,834
Earnings per share attributable to owners of the Company	12		
– Basic		RMB309 cents	RMB128 cents
– Diluted		RMB309 cents	RMB127 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	10,056,084	4,154,834
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	(373,071)	(792,154)
Share of exchange differences on translation of joint ventures	(72,871)	(183,622)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(445,942)	(975,776)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	(182,383)	(277,393)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(182,383)	(277,393)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(628,325)	(1,253,169)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	9,427,759	2,901,665
Attributable to:		
Owners of the Company	9,177,488	2,782,246
Non-controlling interests	250,271	119,419
	9,427,759	2,901,665

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	6,411,151	5,351,448
Investment properties	14	27,263,329	17,490,590
Land use rights	15	1,152,384	1,109,471
Interests in associates	16	4,670,441	3,452,270
Interests in joint ventures	17	42,996,460	34,715,581
Deferred tax assets	27	1,872,238	1,642,044
Other non-current assets		211,928	–
Total non-current assets		84,577,931	63,761,404
CURRENT ASSETS			
Properties under development	18	51,760,690	47,302,324
Completed properties held for sale	19	10,928,887	8,919,658
Trade receivables	20	2,166,759	957,665
Prepayments, other receivables and other assets	21	7,401,565	6,406,463
Due from a joint venture	17	30,062	30,069
Tax recoverables	22(a)	722,780	482,606
Restricted cash	23	5,356,141	4,099,329
Cash and cash equivalents	23	51,377,864	52,577,643
Total current assets		129,744,748	120,775,757
CURRENT LIABILITIES			
Trade and bills payables	24	9,072,301	4,077,063
Lease liabilities	2.2	230,445	–
Other payables and accruals	25	27,627,042	22,517,471
Due to joint ventures	17	37,742,306	39,294,914
Due to associates	16	1,345,495	592,204
Interest-bearing bank and other borrowings	26	23,728,043	17,363,932
Tax payables	22(b)	9,926,137	6,851,772
Total current liabilities		109,671,769	90,697,356
NET CURRENT ASSETS		20,072,979	30,078,401
TOTAL ASSETS LESS CURRENT LIABILITIES		104,650,910	93,839,805
NON-CURRENT LIABILITIES			
Lease liabilities	2.2	1,895,326	–
Interest-bearing bank and other borrowings	26	61,849,507	60,418,315
Deferred tax liabilities	27	2,661,444	1,647,439
Deferred revenue	28	2,042	2,042
Total non-current liabilities		66,408,319	62,067,796
NET ASSETS		38,242,591	31,772,009

Consolidated Statement of Financial Position

31 December 2019

	Note	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	303,972	303,784
Reserves		35,490,786	28,474,780
		35,794,758	28,778,564
Non-controlling interests		2,447,833	2,993,445
TOTAL EQUITY		38,242,591	31,772,009

KONG Jianmin
Director

KONG Jiantao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

Attributable to owners of the Company													
		Issued capital	Treasury shares	Share premium account	Reserve funds	Exchange fluctuation reserve	Employee share-based compensation reserve	Asset revaluation reserve ^a	Capital reserve	Retained profits	Total	Non-controlling interests	Total equity
Notes	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 2018		302,355	-	5,295,047	1,410,265	(271,606)	-	29,175	(57,546)	20,899,594	27,607,284	638,409	28,245,693
Profit for the year		-	-	-	-	-	-	-	-	4,035,415	4,035,415	119,419	4,154,834
Other comprehensive income for the year:													
Exchange differences on translation into presentation currency		-	-	-	-	(1,069,547)	-	-	-	-	(1,069,547)	-	(1,069,547)
Share of exchange differences on translation of joint ventures		-	-	-	-	(183,622)	-	-	-	-	(183,622)	-	(183,622)
Total comprehensive income for the year		-	-	-	-	(1,253,169)	-	-	-	4,035,415	2,782,246	119,419	2,901,665
Issue of treasury shares	29	125	(125)	-	-	-	-	-	-	-	-	-	-
Share-based compensation expenses		-	-	-	-	-	28,776	-	-	-	28,776	-	28,776
Contribution from the non-controlling shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	1,545,723	1,545,723
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	1,227,281	1,227,281
Final 2017 dividend declared	29	-	-	(978,098)	-	-	-	-	-	-	(978,098)	-	(978,098)
Interim 2018 dividend	29	-	-	(788,789)	-	-	-	-	-	-	(788,789)	-	(788,789)
Shares issued as scrip dividend during the year	29	1,429	-	125,716	-	-	-	-	-	-	127,145	-	127,145
Transfer to reserves	31	-	-	-	187,639	-	-	-	-	(187,639)	-	-	-
Derecognition of a subsidiary	35(a)	-	-	-	-	-	-	-	-	-	-	(537,387)	(537,387)
At 31 December 2018		303,909	(125)	3,653,876	1,597,904	(1,524,775)	28,776	29,175	(57,546)	24,747,370	28,778,564	2,993,445	31,772,009

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

Notes	Attributable to owners of the Company												
	Issued capital	Treasury shares	Share premium account	Reserve funds	Exchange fluctuation reserve	Employee share-based compensation reserve	Asset revaluation reserve [#]	Capital reserve	Retained profits	Total	Non-controlling interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2019	303,909	(125)	3,653,876	1,597,904	(1,524,775)	28,776	29,175	(57,546)	24,747,370	28,778,564	2,993,445	31,772,009	
Effect of adoption of HKFRS 16	2.2	-	-	-	-	-	-	-	38,877	38,877	-	38,877	
At 1 January 2019 (restated)	303,909	(125)	3,653,876	1,597,904	(1,524,775)	28,776	29,175	(57,546)	24,786,247	28,817,441	2,993,445	31,810,886	
Profit for the year	-	-	-	-	-	-	-	-	9,805,813	9,805,813	250,271	10,056,084	
Other comprehensive loss for the year:													
Exchange differences on translation into presentation currency	-	-	-	-	(555,454)	-	-	-	-	(555,454)	-	(555,454)	
Share of exchange differences on translation of joint ventures	-	-	-	-	(72,871)	-	-	-	-	(72,871)	-	(72,871)	
Total comprehensive income for the year	-	-	-	-	(628,325)	-	-	-	9,805,813	9,177,488	250,271	9,427,759	
Share-based compensation expenses	-	-	-	-	-	21,234	-	-	-	21,234	-	21,234	
Contribution from the non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	76,000	76,000	
Acquisition of a subsidiary	33	-	-	-	-	-	-	-	-	-	4,195	4,195	
Shares issued as scrip dividend during the year	29	63	-	5,263	-	-	-	-	-	5,326	-	5,326	
Issue of treasury shares	29	176	(176)	-	-	-	-	-	-	-	-	-	
Vested awarded shares transferred to employees	29	-	125	15,310	-	-	(15,435)	-	-	-	-	-	
Transfer to reserves	31	-	-	-	388,329	-	-	-	(388,329)	-	-	-	
Final 2018 dividend declared	29	-	-	(983,962)	-	-	-	-	-	(983,962)	-	(983,962)	
Interim 2019 dividend	29	-	-	(1,020,309)	-	-	-	-	-	(1,020,309)	-	(1,020,309)	
Derecognition of subsidiaries	35(a)	-	-	-	-	-	-	-	-	-	(1,175,330)	(1,175,330)	
Net gains on property revaluation	-	-	-	-	-	-	63,403	-	-	63,403	-	63,403	
Acquisition of non-controlling interests	-	-	-	-	-	-	-	45,136	-	45,136	(278,402)	(233,266)	
Partial disposal of interest of subsidiaries	-	-	-	-	-	-	-	(330,999)	-	(330,999)	577,654	246,655	
At 31 December 2019		304,148	(176)	1,670,178*	1,986,233*	(2,153,100)*	34,575*	92,578*	(343,409)*	34,203,731*	35,794,758	2,447,833	38,242,591

[#] The asset revaluation reserve arose from the gains on properties revaluation as a result of the change in use from owner-occupied properties to investment properties.

^{*} These reserve accounts comprise the consolidated reserves of approximately RMB35,490,786,000 (2018: approximately RMB28,474,780,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,619,053	5,391,230
Adjustments for:			
Finance costs	7	1,531,336	1,070,059
Foreign exchange gains	5	(96,405)	(683,693)
Share of profits and losses of associates		(513,706)	279
Share of profits and losses of joint ventures		(2,933,397)	(1,439,857)
Interest income	5	(949,330)	(482,259)
Share-based compensation expenses		21,234	28,776
Loss on disposal of items of property, plant and equipment	6	314	112
Depreciation	6	252,059	148,916
Amortisation of land use rights	6	11,038	8,761
Fair value gains on investment properties, net	14	(3,716,461)	(1,714,657)
Gain on disposal of a subsidiary	5	-	(1,167,368)
Gains on derecognition of subsidiaries	5	(691,361)	-
Gain on acquisition of a joint venture	5	(129,350)	-
Gain on disposal of a joint venture	5	(134,095)	-
Gains on acquisition of subsidiaries	33	(791,218)	-
		5,479,711	1,160,299
Increase in properties under development		(28,669,391)	(18,286,770)
Decrease/(increase) in completed properties held for sale		15,142,940	(2,170,498)
Increase in trade receivables		(1,195,530)	(421,812)
Increase in investment properties		(1,818,657)	-
Decrease/(increase) in prepayments, other receivables and other assets		4,830,168	(1,568,675)
Decrease/(increase) in an amount due from a joint venture		7	(4)
Increase in restricted cash		(1,256,812)	(2,830,965)
Increase/(decrease) in trade and bills payables		3,248,855	(313,432)
Increase in other payables and accruals		5,797,926	15,018,760
Increase in amounts due to associates		753,291	592,204
Increase in amounts due to joint ventures		-	11,365,905
		2,312,508	2,545,012
Cash generated from operations		2,312,508	2,545,012
Interest received		835,236	472,178
Interest paid	35(c)	(6,251,802)	(4,186,027)
Corporate income tax paid		(427,781)	(741,244)
Land appreciation tax paid		(743,729)	(361,616)
		(4,275,568)	(2,271,697)
Net cash flows used in operating activities		(4,275,568)	(2,271,697)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows used in operating activities		(4,275,568)	(2,271,697)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(780,809)	(660,076)
Acquisitions of subsidiaries	33	81,443	(84,675)
Investments in joint ventures		(1,009,058)	(545,848)
Acquisitions of joint ventures		(1,970,065)	–
Investments in associates		(781,280)	(1,130,725)
Disposal of a subsidiary	34	–	1,872,881
Derecognition of subsidiaries		(1,180,585)	(84,567)
Disposals of joint ventures		598,485	–
Proceeds from disposal of investment properties		–	6,718
Proceeds from disposal of items of property, plant and equipment		11,018	227
Repayment from/(advance to) associates		96,567	(1,559,630)
Advance to joint ventures		(642,820)	(1,757,112)
Dividend received from joint ventures		893,351	–
Net cash flows used in investing activities		(4,683,753)	(3,942,807)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of senior notes		10,152,399	6,111,495
Proceeds from sales of domestic corporate bonds		3,670,000	–
Acquisitions of non-controlling interests		(43,171)	–
Partial disposals of interest of subsidiaries		246,655	–
Domestic corporate bonds repurchased		(5,537,000)	(2,025,239)
New bank loans		22,076,517	18,519,875
Repayment of senior notes		(4,067,039)	–
Redemption of domestic corporate bond		(530,000)	–
Repayment of bank loans		(10,620,168)	(3,404,338)
Repayment of finance lease payables		(118,490)	(35,610)
Contribution from the non-controlling shareholders of subsidiaries		76,000	1,545,723
Decrease in amounts due to joint ventures		(5,851,391)	–
Dividend paid	35(c)	(1,767,425)	(1,156,333)
Net cash flows from financing activities		7,686,887	19,555,573
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		52,577,643	39,198,957
Effect of foreign exchange rate changes, net		72,655	37,617
CASH AND CASH EQUIVALENTS AT END OF YEAR		51,377,864	52,577,643
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		24,047,048	18,053,986
Non-pledged time deposits with original maturity of less than three months when acquired	23	27,330,816	34,523,657
Cash and cash equivalents	23	51,377,864	52,577,643

1. Corporate and Group Information

KWG Group Holdings Limited (the “Company”) was a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were involved in the following principal activities:

- Property development
- Property investment
- Property management
- Hotel operation

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which was incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Boom Faith International Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$100	–	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Hugeluck Investments Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Guangzhou Hejing Holdings Limited (“Guangzhou Hejing”)**	PRC/Mainland China	US\$99,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited ^a	PRC/Mainland China	US\$12,930,000	–	100	Property development

Notes to Financial Statements

31 December 2019

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Hejing Yingfu Real Estate Development Limited [#]	PRC/Mainland China	RMB35,000,000	–	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited ^{**}	PRC/Mainland China	RMB792,000,000	–	100	Property investment
Guangzhou Zhongtianying Real Estate Development Limited ^{**}	PRC/Mainland China	US\$198,000,000	–	100	Property development
Guangzhou Tianjian Real Estate Development Limited ("Guangzhou Tianjian") ^{**}	PRC/Mainland China	RMB1,617,000,000	–	100	Property development
Guangzhou Fuxin Property Management Limited [#]	PRC/Mainland China	RMB7,000,000	–	100	Property management
Guangzhou Ningjun Property Management Limited ^{**}	PRC/Mainland China	RMB7,000,000	–	100	Property management
Guangzhou Junzhao Property Operation Limited ^{**}	PRC/Mainland China	RMB7,000,000	–	100	Property management
Chengdu Zhongtianying Real Estate Development Limited [#]	PRC/Mainland China	RMB550,000,000	–	100	Property development
Guangzhou Liangyu Investment Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Hainan New World Real Estate Property (HK) Limited ^{**}	PRC/Mainland China	HK\$772,000,000	–	100	Property development
Suzhou Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB1,290,000,000	–	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited ^{**}	PRC/Mainland China	US\$99,000,000	–	100	Property development
Beijing Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB70,000,000	–	100	Property development
Chengdu Zhaojing Real Estate Development Limited ^{**}	PRC/Mainland China	HK\$767,000,000	–	100	Property development
Kunshan Baicheng Real Estate Development Limited ^{**}	PRC/Mainland China	US\$29,900,000	–	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited [#]	PRC/Mainland China	RMB330,000,000	–	100	Property development
Guangzhou Lihe Property Development Limited [#]	PRC/Mainland China	RMB640,000,000	–	100	Property development
Chengdu Kaiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hainan Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB300,000,000	–	100	Property development
Shanghai Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Deyu Real Estate Development Limited ("Shanghai Deyu") [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Shanghai Jinyi Property Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Shanghai Hongyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Beijing Hong'en Real Estate Development Limited Liability Company [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Shanghai Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Guangzhou Chuangjing Real Estate Development Limited ^{*,#}	PRC/Mainland China	US\$41,500,000	–	100	Property development
Suzhou Junjing Real Estate Development Limited [#]	PRC/Mainland China	RMB185,000,000	–	100	Property development
Shanghai Langhe Real Estate Development Limited [#]	PRC/Mainland China	RMB887,000,000	–	100	Property development
Shanghai Jingdong Real Estate Development Limited [#]	PRC/Mainland China	RMB1,350,000,000	–	75.5	Property development
Guangzhou Hejing Fengjingyuan Hotel Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Guangzhou Hejing Lingfengyuan Hotel Management Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Hotel operation
Suzhou Shengjing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	80	Property development
Suzhou Kaiwei Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Guangzhou Weiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB60,000,000	–	100	Property development
Suzhou Kaifu Real Estate Development Limited [#]	PRC/Mainland China	RMB170,000,000	–	100	Property development
Guangzhou Hongda Property Limited [#]	PRC/Mainland China	RMB1,300,000,000	–	100	Property development
Beijing Fuyu Real Estate Development Limited [#]	PRC/Mainland China	RMB20,000,000	–	100	Property development
Hangzhou Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	100	Property development
Beijing Hongtai Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Beijing Hengcheng Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hangzhou Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	100	Property development

Notes to Financial Statements

31 December 2019

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hangzhou Hongjun Real Estate Development Limited [#]	PRC/Mainland China	RMB120,000,000	–	100	Property development
Sichuan Longyuan Property Limited [#]	PRC/Mainland China	RMB325,016,300	–	55	Property development
Hangzhou Tianjing Real Estate Development Limited [#]	PRC/Mainland China	RMB240,000,000	–	100	Property development
Suzhou Yujing Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hefei Rongze Real Estate Development Limited [#]	PRC/Mainland China	RMB450,000,000	–	100	Property development
Linhai Jinxuan Real Estate Development Limited [#]	PRC/Mainland China	RMB850,000,000	–	100	Property development
Suzhou Kaijun Real Estate Development Limited [#]	PRC/Mainland China	RMB430,000,000	–	100	Property development
Hubei Jinkaida Property Limited [#]	PRC/Mainland China	RMB50,000,000	–	60	Property development
Suzhou Dongshanshu Real Estate Development Limited ^{**}	PRC/Mainland China	US\$12,000,000	–	100	Property development
Taicang Hongtao Real Estate Development Limited [#]	PRC/Mainland China	RMB500,000,000	–	100	Property development
Guangxi Kairui Property Limited [#]	PRC/Mainland China	RMB350,000,000	–	100	Property development
Hangzhou Hongsheng Real Estate Development Limited [#]	PRC/Mainland China	RMB950,000,000	–	100	Property development
Jiangmen Zhan'gao Property Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Hangzhou Jinxuan Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	60	Property development
Qidong Tianhui Real Estate Development Limited [#]	PRC/Mainland China	RMB500,000,000	–	70	Property development
Longmen Dongjun Huafu Education Industry Development Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Meishan Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB380,000,000	–	100	Property development
Guangzhou Yufa Plastic Limited [#]	PRC/Mainland China	RMB5,000,000	–	65	Property development
Linhai Zhaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Jiangmen Tianjing Property Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Jiashan Xujing Property Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	100	Property development
Yangzhou Hejing Songyu Real Estate Development Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development
Suzhou Kaiyu Real Estate Development Limited [#]	PRC/Mainland China	RMB400,000,000	–	100	Property development
Beijing Yujing Real Estate Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	51	Property development
Guangzhou Hongtao Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Guangzhou Tianhui Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	62.5	Property development
Guangzhou Xiangjing Property Development Limited [#]	PRC/Mainland China	RMB60,000,000	–	60	Property development
Guangzhou Yuanjing Property Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development
Hangzhou Hongli Real Estate Development Limited [#]	PRC/Mainland China	RMB300,000,000	–	100	Property development
Linhai Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB273,600,000	–	100	Property development
Tianjin Guangying Real Estate Development Limited [#]	PRC/Mainland China	RMB30,000,000	–	100	Property development

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wuzhou Qidi Hongxing Hejing Investment Limited [#]	PRC/Mainland China	RMB10,000,000	–	75	Property development
Xian Junjing Property Development Limited [#]	PRC/Mainland China	RMB20,000,000	–	100	Property development
Beijing Yijing Real Estate Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	80	Property development
Guangzhou Guanda Property Development Limited [#]	PRC/Mainland China	RMB74,990,000	–	60	Property development
Guangzhou Zhangao Property Development Limited [#]	PRC/Mainland China	RMB700,000,000	–	100	Property development
Huanan Yigu Technological Development (Guangzhou) Limited [#]	PRC/Mainland China	RMB200,000,000	–	80	Property development
Shanghai Yaojing Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	90	Property development
Guangxi Hejing Real Estate Development Limited [#]	PRC/Mainland China	RMB10,000,000	–	100	Property development
Guangxi Hejing Hengfu Investment Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Guangxi Hejing Shengyu Real Estate Development Limited [#]	PRC/Mainland China	RMB100,000,000	–	100	Property development
Hefei Hongtao Real Estate Development Limited [#]	PRC/Mainland China	RMB50,000,000	–	100	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the dates on which the Group obtains control, and continue to be consolidated until the dates that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary; (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.1 Basis of Preparation *(continued)*

Basis of consolidation *(continued)*

The Company has set up a trust (the "Trust") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme (the "Share Award Scheme") adopted on 19 January 2018. The Group has the power to govern the financial and operating policies of the Trust and derive benefits from the services of the employees who have been awarded the awarded shares through their continued employment with the Group. The assets and liabilities of the Trust are included in the consolidated statement of financial position and the shares held by the Trust are presented as a deduction in equity as shares held for the Share Award Scheme.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of reference to the underlying asset. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

2.2 Changes in Accounting Policies and Disclosures *(continued)*

HKFRS 16 *(continued)*

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties, vehicles, leasehold land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases of 12 months or less (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation and amortisation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments and initial direct costs relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to include the right-of-use assets in property, plant and equipment, investment properties, land use rights, properties under development and completed properties held for sale in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously identified as operating leases, the Group included them as investment properties at 1 January 2019. They are measured at fair value applying HKAS 40.

2.2 Changes in Accounting Policies and Disclosures *(continued)*

HKFRS 16 *(continued)*

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Notes	Increase/ (decrease) RMB'000
Assets		
Increase in property, plant and equipment	13	437,847
Increase in investment properties	14	1,406,000
Increase in land use rights		31,465
Decrease in prepayments, other receivables and other assets		(44,542)
Increase in total assets		1,830,770
Liabilities		
Increase in lease liabilities		2,097,472
Increase in deferred tax liabilities	27	12,959
Decrease in other borrowings		(318,538)
Increase in total liabilities		1,791,893
Increase in retained earnings		38,877

2.2 Changes in Accounting Policies and Disclosures *(continued)*

HKFRS 16 *(continued)*

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	2,206,028
Weighted average incremental borrowing rate as at 1 January 2019	5.00%
Discounted operating lease commitments as at 1 January 2019	1,781,603
Add: Other lease commitments	315,869
Lease liabilities as at 1 January 2019	2,097,472

Amounts recognised in the consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets (excluded land use rights, properties under development and completed properties held for sale) and lease liabilities and the movement during the year are as follow:

	Right-of-use assets				Lease liabilities RMB'000
	Buildings RMB'000	Vehicle RMB'000	Property, plant and equipment sub-total RMB'000	Investment properties RMB'000	
As at 1 January 2019	437,847	474,336	912,183	1,406,000	2,097,472
Additions	131,673	-	131,673	75,692	146,789
Depreciation charge	(58,752)	(30,525)	(89,277)	-	-
Interest expense	-	-	-	-	128,262
Decrease in fair value	-	-	-	(35,692)	-
Payments	-	-	-	-	(246,752)
As at 31 December 2019	510,768	443,811	954,579	1,446,000	2,125,771

The lease liabilities as at 31 December 2019 included current portion of lease liabilities of RMB230,445,000 and non-current portion of lease liabilities of RMB1,895,326,000.

The Group recognised rental expenses from short-term leases and leases of low-value assets of approximately RMB8,271,000, no variable lease payments and rental income from subleasing right-of-use assets, which were subsequently transferred to investment properties, of approximately RMB37,074,000 for the year ended 31 December 2019.

2.2 Changes in Accounting Policies and Disclosures *(continued)*

Amendments to HKAS 28

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 Issued but not yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and OCI of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated OCI, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 Summary of Significant Accounting Policies *(continued)*

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of Significant Accounting Policies *(continued)*

Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies *(continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings (excluding the right-of-use assets)	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Vehicles (excluding the right-of-use assets)	7% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period.

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

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.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. For a transfer from properties under development or completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Property management contracts acquired in business combinations are recognised at fair value at the acquisition date. The property management contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives of the contracts.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets (relate to the land use rights and property, plant and equipment) are measured at cost, less any accumulated depreciation and amortisation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated and amortised on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	17 to 40 years
Buildings	2 to 19 years
Vehicle	15 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 Summary of Significant Accounting Policies *(continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

(a) *Right-of-use assets (continued)*

When the right-of-use assets relate to interests in leasehold land held as properties under development and completed properties held for sale, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "property under development" and "completed properties held for sale". When a right-of-use asset meets the definition of investment property (e.g., long-term rental apartments), it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 Summary of Significant Accounting Policies *(continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Finance Lease

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

2.4 Summary of Significant Accounting Policies *(continued)*

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

For debt investments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to the statement of profit or loss.

Financial assets designated at fair value through OCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through OCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity investments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

In certain cases, the Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, lease liabilities, other payables and accruals, due to joint ventures, due to associates and interest-bearing bank and other borrowings.

2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, lease liabilities and interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.4 Summary of Significant Accounting Policies *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in OCI or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

2.4 Summary of Significant Accounting Policies *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of properties

Revenue is recognised when 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;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the 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 purchaser obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of each reporting period as a percentage of total estimated costs for each contract.

For a property development and sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has the present right to payment and the collection of the consideration is probable.

2.4 Summary of Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(b) Operation of hotels

Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised when the services are rendered.

(c) Property management services

Property management service income derived from the provision of property maintenance and 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.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Management fee income is recognised when the related management services have been provided.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 Summary of Significant Accounting Policies *(continued)*

Contract costs

Other than the costs which are capitalised as properties under development, completed properties held for sale, investment properties, property, plant and equipment and land use rights, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value was determined by an external valuer using the binomial model (the "Model"), further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award, and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 Summary of Significant Accounting Policies *(continued)*

Share-based payments *(continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

2.4 Summary of Significant Accounting Policies *(continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Company's functional currency is the Hong Kong dollar while the presentation currency of these financial statements is RMB. In the opinion of the directors, as the Group's operations are mainly in Mainland China, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and joint ventures not operating in Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities and the Company are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in OCI and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

Revenue from sales of properties is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue is recognised at a point in time when the buyer obtains control of the completed property. The Group may not change or substitute the property unit or redirect the property unit for another use due to the contractual restrictions with the customer and thus the property unit does not have an alternative use to the Group. However, whether there is an enforceable right to payment depends on the terms of the sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgements. The Group has obtained legal counsel opinion regarding the enforceability of the right to payment for sales contracts. Management uses judgements, based on legal counsel opinion, to classify sales contracts into those with the right to payment and those without the right.

The lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. Significant Accounting Judgements and Estimates *(continued)*

Judgements *(continued)*

Transfer from properties under development, completed properties held for sale, property, plant and equipment and land use rights to investment properties and transfer from investment properties to completed properties held for sale

Properties under development, completed properties held for sale, property, plant and equipment and land use rights are transferred to investment properties when there is a change in use with sufficient evidence. The Group determines whether a change in use has occurred based on assessment of all relevant facts and circumstances, which include but are not limited to: (a) a business plan that reflects the future rental income generated by the property; (b) the resources to hold and manage an investment property; (c) legal permissibility for the change in use; and (d) the commencement of development if the property requires further development for the change in use. Any excess of fair value over the original carrying amount of such properties at the date of transfer was recognised immediately in the consolidated statement of profit or loss or the consolidated statement of financial position. During the year ended 31 December 2019, properties under development and completed properties held for sale with total carrying amounts approximately RMB2,096,993,000 (2018: approximately RMB1,511,432,000) and approximately RMB516,282,000 (2018: approximately RMB17,148,000), respectively, were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB1,378,007,000 (2018: approximately RMB1,231,521,000) and approximately RMB284,991,000 (2018: approximately RMB80,592,000), respectively, in the consolidated statement of profit or loss. During the year ended 31 December 2019, property, plant and equipment and land use rights with total carrying amounts of approximately RMB131,806,000 (2018: nil) and approximately RMB10,848,000 (2018: nil), respectively, were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB78,112,000 (2018: nil) and approximately RMB6,426,000 (2018: nil), respectively, in the consolidated statement of financial position. During the year ended 31 December 2019, no investment properties (2018: approximately RMB225,893,000) were transferred to completed properties held for sale due to a change in use.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the management of the Group has reviewed the Group's investment properties and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

Accordingly, the Group recognises deferred tax in respect of the changes in fair value of the investment properties based on management's best estimate assuming future tax consequences through usage of such properties for rental purposes, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment properties be subsequently disposed of by the Group, rather than all of the economic benefits embodied in the investment properties are consumed substantially by leasing over time. In the event that the investment properties are disposed of, the Group may be liable to higher tax upon disposal considering the impact of corporate income tax ("CIT") and land appreciation tax ("LAT").

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Revenue recognition

The Group recognises property development revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of each reporting period as a percentage of total estimated costs for the property unit in the contract. Significant judgements and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Changes in cost estimates in future periods can affect the Group's revenue recognised.

Revaluation of investment properties

Investment properties including completed investment properties, investment properties under construction and right-of-use assets are revalued at the end of each reporting period based on the market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information about market rent and capitalisation rates is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used. The carrying amount of the Group's investment properties at 31 December 2019 was approximately RMB27,263,329,000 (31 December 2018: approximately RMB17,490,590,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Estimation of net realisable value of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is determined by the Group with reference to the prevailing market conditions and prices existing at the end of each reporting period. As at 31 December 2019, the carrying amounts of properties under development and completed properties held for sale were approximately RMB51,760,690,000 (2018: approximately RMB47,302,324,000) and approximately RMB10,928,887,000 (2018: approximately RMB8,919,658,000), respectively.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

CIT

The Group is subject to CIT in the PRC. As certain matters relating to the CIT have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and tax provision in the period in which the differences realise.

Provision for ECLs on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by service type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the property development sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 20 and note 21 to the financial statements, respectively.

PRC LAT

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was approximately RMB361,932,000 (2018: approximately RMB538,954,000). The amount of unrecognised tax losses at 31 December 2019 was approximately RMB1,144,911,000 (31 December 2018: approximately RMB716,319,000). Further details are contained in note 27 to the financial statements.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management’s best estimate.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

4. Operating Segment Information

For management purposes, the Group is organised into four reportable operating segments as follows:

- (a) Property development: Sale of properties
- (b) Property investment: Leasing of properties
- (c) Hotel operation: Operation of hotels
- (d) Property management: Provision of property management services

The property development projects undertaken by the Group during the year were mainly located in Mainland China and Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverables, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

Other than the segment information disclosed below, the directors considered that other segment information is not reportable segment information used by the chief operating decision makers of the Group.

The Group's revenue from external customers is derived solely from its operations in Mainland China. As the Group's major operations and customers are located in Mainland China, no further geographical information is provided.

During 2019 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Notes to Financial Statements

31 December 2019

4. Operating Segment Information *(continued)*

Year ended 31 December 2019

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	22,761,946	626,909	553,098	1,014,308	24,956,261
Segment results	9,189,911	4,174,760	188,160	406,129	13,958,960
<i>Reconciliation:</i>					
Interest income and unallocated income					2,858,916
Unallocated expenses					(1,667,487)
Finance costs					(1,531,336)
Profit before tax					13,619,053
Income tax expenses					(3,562,969)
Profit for the year					10,056,084
Assets and liabilities:					
Segment assets	114,809,168	27,377,879	6,755,802	461,788	149,404,637
<i>Reconciliation:</i>					
Corporate and other unallocated assets					64,918,042
Total assets					214,322,679
Segment liabilities	127,475,598	57,318	20,021	6,599	127,559,536
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					48,520,552
Total liabilities					176,080,088
Other segment information:					
Depreciation and amortisation	91,491	13,922	149,145	8,539	263,097
Fair value gains on investment properties, net	-	3,716,461	-	-	3,716,461
Share of profits and losses of:					
Associates	513,706	-	-	-	513,706
Joint ventures	2,933,397	-	-	-	2,933,397
Interests in associates	4,670,441	-	-	-	4,670,441
Interests in joint ventures	42,996,460	-	-	-	42,996,460

4. Operating Segment Information *(continued)*

Year ended 31 December 2018

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	6,064,248	379,321	468,181	565,721	7,477,471
Segment results					
	2,688,619	1,993,513	204,017	116,635	5,002,784
<i>Reconciliation:</i>					
Interest income and unallocated income					2,703,427
Unallocated expenses					(1,244,922)
Finance costs					(1,070,059)
Profit before tax					5,391,230
Income tax expenses					(1,236,396)
Profit for the year					4,154,834
Assets and liabilities:					
Segment assets	99,229,996	17,545,941	5,693,993	118,838	122,588,768
<i>Reconciliation:</i>					
Corporate and other unallocated assets					61,948,393
Total assets					184,537,161
Segment liabilities	114,770,698	48,250	46,515	13,504	114,878,967
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					37,886,185
Total liabilities					152,765,152
Other segment information:					
Depreciation and amortisation	50,073	2,585	103,329	1,690	157,677
Fair value gains on investment properties, net	–	1,714,657	–	–	1,714,657
Share of profits and losses of:					
Associates	(279)	–	–	–	(279)
Joint ventures	1,439,857	–	–	–	1,439,857
Interests in associates	3,452,270	–	–	–	3,452,270
Interests in joint ventures	34,715,581	–	–	–	34,715,581

Notes to Financial Statements

31 December 2019

5. Revenue, Other Income and Gains, Net

An analysis of revenue, other income and gains, net is as follows:

	Note	2019 RMB'000	2018 RMB'000
Revenue:			
Revenue from contracts with customers			
Sale of properties		22,761,946	6,064,248
Hotel operation income		553,098	468,181
Property management fee income		1,014,308	565,721
Revenue from other sources			
Gross rental income		626,909	379,321
		24,956,261	7,477,471
Other income and gains, net:			
Interest income		949,330	482,259
Foreign exchange differences, net		96,405	683,693
Management fee income		366,105	213,520
Gains on derecognition of subsidiaries		691,361	–
Gain on acquisition of a joint venture		129,350	–
Gain on disposal of a joint venture		134,095	–
Gain on disposal of a subsidiary	34	–	1,167,368
Others		492,270	156,587
		2,858,916	2,703,427

5. Revenue, Other Income and Gains, Net *(continued)*

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2019

	Property development RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<i>Type of revenue recognition:</i>				
Sales of properties	22,761,946	-	-	22,761,946
Provision of services	-	553,098	1,014,308	1,567,406
Total revenue from contracts with customers	22,761,946	553,098	1,014,308	24,329,352
<i>Timing of revenue recognition:</i>				
Recognised at a point in time	19,517,733	-	-	19,517,733
Recognised over time	3,244,213	553,098	1,014,308	4,811,619
Total revenue from contracts with customers	22,761,946	553,098	1,014,308	24,329,352

For the year ended 31 December 2018

	Property development RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<i>Type of revenue recognition:</i>				
Sale of properties	6,064,248	-	-	6,064,248
Provision of services	-	468,181	565,721	1,033,902
Total revenue from contracts with customers	6,064,248	468,181	565,721	7,098,150
<i>Timing of revenue recognition:</i>				
Recognised at a point in time	3,932,535	-	-	3,932,535
Recognised over time	2,131,713	468,181	565,721	3,165,615
Total revenue from contracts with customers	6,064,248	468,181	565,721	7,098,150

5. Revenue, Other Income and Gains, Net *(continued)*

Revenue from contracts with customers *(continued)*

(i) *Disaggregated revenue information (continued)*

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of properties	7,576,826	438,450

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of properties

The performance obligation is satisfied upon delivery of the properties and payment in advance is normally required; or over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Hotel operation services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of hotel operation services and customer acceptance.

Property management services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Management service contracts are for periods of one year or less, or are billed based on the time incurred.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 31 December 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	16,613,703	12,088,377
More than one year	3,762,822	2,511,439
	20,376,525	14,599,816

The remaining performance obligations expected to be recognised in more than one year relate to sales of properties that are to be satisfied within 18 months. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of properties sold		16,101,134	4,419,555
Less: Government grant released*	25(a)	(261)	(336)
		16,100,873	4,419,219
Cost of services provided		989,608	606,983
Depreciation	13	252,059	148,916
Amortisation of land use rights	15	34,018	31,464
Less: Amount capitalised in assets under construction		(22,980)	(22,703)
		11,038	8,761
Minimum lease payments under operating leases of land and buildings		-	47,236
Lease payments not included in the measurement of lease liabilities	2.2	8,271	-
Auditor's remuneration		5,150	4,700
Employee benefit expenses** (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		1,489,282	1,036,599
Share-based compensation expenses		18,858	24,905
Pension scheme contributions (defined benefit plans)		133,748	99,028
		1,641,888	1,160,532
Less: Amounts capitalised in assets under construction, properties under development and investment properties under development		(492,318)	(255,208)
		1,149,570	905,324
Foreign exchange differences, net	5	(96,405)	(683,693)
Loss on disposal of items of property, plant and equipment***		314	112
Direct operating expenses (including repairs and maintenance arising on rent-earning investment properties)		43,765	30,708

* There are no unfulfilled conditions or contingencies relating to this government grant.

** Employee benefit expenses are included in "Cost of sales", "Selling and marketing expenses" and "Administrative expenses" in the consolidated statements of profit or loss.

*** These items are included in "Other operating expenses, net" in the consolidated statement of profit or loss.

Notes to Financial Statements

31 December 2019

7. Finance Costs

An analysis of the Group's finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings	6,209,762	4,424,211
Interest on lease liabilities	128,262	–
Less: Interest capitalised	(4,806,688)	(3,354,152)
	1,531,336	1,070,059

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	6,006	5,982
Other emoluments:		
Salaries, allowances and benefits in kind	14,478	17,624
Share-based compensation expenses	2,376	3,872
Pension scheme contributions	245	249
	17,099	21,745
	23,105	27,727

There were no directors and chief executive being granted share options during the year (2018: Nil).

During the year, certain directors were granted awarded shares, in respect of their services to the Group, under the Share Award Scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. Directors' and Chief Executive's Remuneration *(continued)***(a) Independent non-executive directors**

	Fees RMB'000
2019	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	466
Mr. Tam Chun Fai	466
Mr. Li Bin Hai	466
	1,398
2018	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	456
Mr. Tam Chun Fai	456
Mr. Li Bin Hai	456
	1,368

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. Directors' and Chief Executive's Remuneration (continued)

(b) Executive directors and chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based compensation expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Executive directors:					
Mr. Kong Jianmin	1,344	3,502	-	56	4,902
Mr. Kong Jiantao (note (i))	1,344	3,551	-	56	4,951
Mr. Kong Jiannan	1,344	3,642	-	56	5,042
Mr. Tsui Kam Tim (note (iv))	219	2,788	939	21	3,967
Mr. Cai Fengjia	357	995	1,437	56	2,845
	4,608	14,478	2,376	245	21,707
2018					
Executive directors:					
Mr. Kong Jianmin	1,314	3,501	-	57	4,872
Mr. Kong Jiantao (note (i))	1,314	3,539	-	57	4,910
Mr. Kong Jiannan	1,314	3,501	-	57	4,872
Mr. Li Jianming (note (ii))	204	2,333	-	27	2,564
Mr. Tsui Kam Tim	351	4,482	2,007	31	6,871
Mr. Cai Fengjia (note (iii))	117	268	1,865	20	2,270
	4,614	17,624	3,872	249	26,359

Notes:

- (i) Mr. Kong Jiantao is also the chief executive officer of the Company.
- (ii) Resigned on 3 September 2018.
- (iii) Appointed on 3 September 2018.
- (iv) Resigned on 12 August 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees for the year ended 31 December 2019 included three (2018: four) directors and the chief executive, details of whose remuneration are set out in note 8.

Details of the remuneration for the year ended 31 December 2019 of the remaining two (2018: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Fees	219	–
Salaries, allowances and benefits in kind	8,731	3,111
Share-based compensation expenses	2,542	927
Pension scheme contributions	92	90
	11,584	4,128

The number of non-director and non-chief executive highest paid employees whose emoluments fell within the following bands are as follows:

	Number of employees	
	2019	2018
RMB4,000,001 to RMB4,500,000	–	1
RMB5,000,000 to RMB5,500,000	1	–
RMB6,000,000 to RMB6,500,000	1	–

During the year, awarded shares were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

There were no non-director and non-chief executive highest paid employees being granted share options during the year (2018: Nil).

Notes to Financial Statements

31 December 2019

10. Income Tax Expenses

	2019 RMB'000	2018 RMB'000
Current – PRC		
CIT	1,802,280	732,340
LAT	1,008,773	322,156
Deferred (note 27)	2,811,053	1,054,496
	751,916	181,900
Total tax charge for the year	3,562,969	1,236,396

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate, is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	13,619,053	5,391,230
Tax at the statutory tax rate of 25.0% (2018: 25.0%)	3,404,763	1,347,808
Income not subject to tax	(61,770)	(232,651)
Expenses not deductible for tax	372,497	557,381
Tax losses not recognised/(utilised from previous periods)	131,309	(12,455)
Profits and losses attributable to associates	(128,427)	70
Profits and losses attributable to joint ventures	(733,349)	(359,964)
LAT	1,008,773	322,156
Effect of LAT	(252,193)	(80,539)
Tax effect of verification collection	(25,817)	(15,076)
Disposal of a subsidiary	-	(140,915)
Others	(152,817)	(149,419)
Tax charge at the Group's effective rate of 26.2% (2018: 22.9%)	3,562,969	1,236,396

For the year ended 31 December 2019, the share of CIT expenses and LAT expenses attributable to the joint ventures amounting to approximately RMB1,022,127,000 (2018: approximately RMB521,101,000) and approximately RMB737,889,000 (2018: approximately RMB782,374,000), respectively, is included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

10. Income Tax Expenses *(continued)*

For the year ended 31 December 2019, the share of CIT expenses attributable to the associates amounting to approximately RMB171,235,000 (2018: approximately RMB189,000), and the share of LAT expenses attributable to the associates amounting to approximately RMB68,507,000 (the share of LAT credits for 2018: approximately RMB5,792,000) are included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2019 and 2018.

PRC CIT

PRC CIT in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2019 and 2018, based on existing legislation, interpretations and practices in respect thereof.

PRC LAT

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Dividends

	Notes	2019 RMB'000	2018 RMB'000
Proposed final dividend (with scrip option) – RMB42 cents (2018: final dividend (with scrip option) of RMB31 cents) per ordinary share	29, 35(c)	1,334,235	983,962
Interim dividend declared – RMB32 cents (2018: RMB25 cents) per ordinary share	29, 35(c)	1,020,309	788,789
		2,354,544	1,772,751

On 28 August 2019, the Board declared the payment of the 2019 interim dividend of RMB32 cents per share (30 June 2018: RMB25 cents per share), totalling approximately RMB1,020,309,000. The interim dividend for the year is made out of the share premium of the Company.

The proposed final dividend for the year, to be made out of the share premium account of the Company, is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings Per Share Attributable to Owners of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 3,174,303,108 (2018: 3,162,393,416) in issue during the year.

For the year ended 31 December 2019, the calculation of the diluted earnings per share amount was based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 3,174,303,108 (31 December 2018: 3,162,393,416) plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares of 4,228,916 (31 December 2018: 4,049,519).

The calculations of the basic and diluted earnings per share amounts are based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to owners of the Company	9,805,813	4,035,415
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	3,174,303,108	3,162,393,416
Effect of dilution – awarded shares	4,228,916	4,049,519
Weighted average number of ordinary shares during the year used in diluted earnings per share calculation	3,178,532,024	3,166,442,935

13. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Right-of-use assets		Total RMB'000
							Buildings RMB'000	Vehicle RMB'000	
31 December 2019									
At 1 January 2019 (restated):									
Cost	3,277,489	67,331	3,188	383,461	132,784	1,967,341	437,847	481,967	6,751,408
Accumulated depreciation	(519,913)	(34,672)	(3,173)	(305,913)	(90,811)	-	-	(7,631)	(962,113)
Net carrying amount	2,757,576	32,659	15	77,548	41,973	1,967,341	437,847	474,336	5,789,295
At 31 December 2018, net of accumulated depreciation	2,757,576	32,659	15	77,548	516,309	1,967,341	-	-	5,351,448
Effect of adoption of HKFRS 16 (note 2.2)	-	-	-	-	(474,336)	-	437,847	474,336	437,847
At 1 January 2019 (restated)	2,757,576	32,659	15	77,548	41,973	1,967,341	437,847	474,336	5,789,295
Additions	42,745	82,254	-	89,978	4,238	587,346	131,673	-	938,234
Disposals	(8,381)	(2,734)	-	(44)	(173)	-	-	-	(11,332)
Acquisition of subsidiaries (note 33)	-	-	-	431	436	-	-	-	867
Derecognition of subsidiaries (note 35)	-	-	-	(136)	(24)	-	-	-	(160)
Surplus on revaluation upon the transfer to investment properties	78,112	-	-	-	-	-	-	-	78,112
Transfers (note 14)	(131,806)	-	-	-	-	-	-	-	(131,806)
Depreciation provided during the year	(97,582)	(27,294)	-	(25,348)	(12,558)	-	(58,752)	(30,525)	(252,059)
At 31 December 2019, net of accumulated depreciation	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151
At 31 December 2019:									
Cost	3,258,159	146,849	3,188	473,489	136,790	2,554,687	569,520	481,967	7,624,649
Accumulated depreciation	(617,495)	(61,964)	(3,173)	(331,060)	(102,898)	-	(58,752)	(38,156)	(1,213,498)
Net carrying amount	2,640,664	84,885	15	142,429	33,892	2,554,687	510,768	443,811	6,411,151

Notes to Financial Statements

31 December 2019

13. Property, Plant and Equipment (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	2,870,063	45,913	3,188	344,540	114,820	1,610,888	4,989,412
Accumulated depreciation	(430,204)	(27,408)	(3,173)	(274,375)	(80,379)	–	(815,539)
Net carrying amount	2,439,859	18,505	15	70,165	34,441	1,610,888	4,173,873
At 1 January 2018, net of accumulated depreciation							
	2,439,859	18,505	15	70,165	34,441	1,610,888	4,173,873
Additions	117,742	21,418	–	40,162	501,152	356,453	1,036,927
Disposals	–	–	–	(260)	(79)	–	(339)
Acquisition of a subsidiary (note 33)	289,684	–	–	299	5	–	289,988
Derecognition of subsidiaries (note 35)	–	–	–	(85)	–	–	(85)
Depreciation provided during the year	(89,709)	(7,264)	–	(32,733)	(19,210)	–	(148,916)
At 31 December 2018, net of accumulated depreciation	2,757,576	32,659	15	77,548	516,309	1,967,341	5,351,448
At 31 December 2018:							
Cost	3,277,489	67,331	3,188	383,461	614,751	1,967,341	6,313,561
Accumulated depreciation	(519,913)	(34,672)	(3,173)	(305,913)	(98,442)	–	(962,113)
Net carrying amount	2,757,576	32,659	15	77,548	516,309	1,967,341	5,351,448

At 31 December 2019, certain items of the Group's property, plant and equipment with an aggregate net carrying amount of approximately RMB2,743,081,000 (2018: approximately RMB2,796,547,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

14. Investment Properties

	2019				2018		
	Completed investment properties RMB'000	Investment properties under construction RMB'000	Right-of-use assets RMB'000	Total RMB'000	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
Carrying amount at 1 January	13,071,588	4,419,002	-	17,490,590	10,693,600	3,025,000	13,718,600
Effect of adoption of HKFRS 16 (note 2.2)	-	-	1,406,000	1,406,000	-	-	-
At 1 January 2019 (restated)	13,071,588	4,419,002	1,406,000	18,896,590	-	-	-
Transfers from properties under development (note 18)	-	2,096,993	-	2,096,993	-	1,511,432	1,511,432
Transfer from completed properties held for sale (note 19)	516,282	-	-	516,282	17,148	-	17,148
Transfer to completed properties held for sale (note 19)	-	-	-	-	(225,893)	-	(225,893)
Transfer from property, plant and equipment (note 13)	131,806	-	-	131,806	-	-	-
Transfer from land use rights (note 15)	10,848	-	-	10,848	-	-	-
Acquisition of a subsidiary (note 33)	-	-	-	-	1,686,000	-	1,686,000
Disposal of a subsidiary (note 34)	-	-	-	-	(1,397,000)	-	(1,397,000)
Additions	-	2,016,030	75,692	2,091,722	-	472,364	472,364
Transfers	931,712	(931,712)	-	-	1,870,738	(1,870,738)	-
Disposals	(197,373)	-	-	(197,373)	(6,718)	-	(6,718)
Net gain from a fair value adjustment	1,833,466	1,918,687	(35,692)	3,716,461	433,713	1,280,944	1,714,657
Carrying amount at 31 December	16,298,329	9,519,000	1,446,000	27,263,329	13,071,588	4,419,002	17,490,590

The Group's investment properties consist of commercial properties and right-of-use assets in the Mainland China. The directors of the Company have determined that the investment properties consist of two classes of assets, commercial properties and right-of-use assets, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by Savills Valuation and Professional Services Limited and Cushman & Wakefield Limited, independent professionally qualified valuers, at approximately RMB27,263,329,000 (2018: approximately RMB17,490,590,000). Each year, the management of the Group decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The management of the Group has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(b) to the financial statements.

At 31 December 2019, certain items of the Group's investment properties with an aggregate carrying amount of approximately RMB13,506,919,000 (2018: approximately RMB6,409,301,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2019, the Group has not yet obtained the real estate ownership certificates of the Group's investment properties with a net carrying amount of approximately RMB6,115,546,000 (2018: approximately RMB10,607,800,000) from the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 219 of the annual report.

14. Investment Properties *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	-	-	25,817,329	25,817,329
Right-of-use assets	-	-	1,446,000	1,446,000
	-	-	27,263,329	27,263,329

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	-	-	17,490,590	17,490,590

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2019	2018
Commercial properties	Investment approach and direct comparison approach	Market rent (per sq.m. and per month)	RMB29 to 980	RMB30 to 1,005
		Capitalisation rates	3.00% to 5.50%	3.75% to 5.75%
Right-of-use assets	Investment approach	Capitalisation rates	3.00% to 4.75%	nil

The Group has determined that the highest and best use of the commercial properties at the measurement date would be to convert the properties for residential purposes. For strategic reasons, the properties are not being used in this manner.

14. Investment Properties *(continued)*

Fair value hierarchy *(continued)*

All the properties are valued by the investment approach taking into account the rental income derived from the existing tenancies with due allowance for the reversionary income potential of the tenancies, which are then capitalised into the value at appropriate rates.

The commercial properties are also valued by the direct comparison approach on the assumption that each property can be sold in their existing state subject to existing tenancies or otherwise by referring to comparable sales transactions as available in the relevant markets. Comparison is based on prices realised on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analysed, and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. The two approaches are reconciled, if applicable.

A significant increase (decrease) in the capitalisation rates in isolation would result in a significant decrease (increase) in the fair value of the investment properties. A significant increase (decrease) in the market rent in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

15. Land Use Rights

	Notes	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January		1,140,936	1,097,553
Surplus on revaluation upon the transfer to investment properties		6,426	–
Transfer to investment properties	14	(10,848)	–
Additions		49,888	–
Acquisition of a subsidiary	33	–	74,847
Amortisation recognised during the year		(34,018)	(31,464)
Carrying amount at 31 December		1,152,384	1,140,936
Current portion included in prepayments, other receivables and other assets	21	–	(31,465)
Non-current portion		1,152,384	1,109,471

At 31 December 2019, certain items of the Group's land use rights with an aggregate net carrying amount of approximately RMB432,122,000 (2018: approximately RMB311,310,000) were pledged to banks to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2019, the Group has not yet obtained the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB24,357,000 (2018: approximately RMB27,450,000) from the relevant government authorities.

16. Interests in Associates

	2019 RMB'000	2018 RMB'000
Share of net assets	2,469,167	1,154,430
Advances to associates	2,201,274	2,297,840
	4,670,441	3,452,270

As at 31 December 2019, except for an aggregate amount of approximately RMB744,429,000 (2018: approximately RMB368,742,000), which are interest-bearing at 4.4% to 9.0% (2018: 4.4% to 9.0%) per annum, the advances to associates as shown above are unsecured, interest-free and not repayable within 12 months. In the opinion of the directors, these advances are considered as part of the Group's net investments in the associates.

As at 31 December 2019, the amount due to associates included in the Group's current liabilities of approximately RMB1,345,495,000 (2018: approximately RMB592,204,000) are unsecured, interest-free and have no fixed term of repayment.

The Group's shareholdings in the associates all comprise equity shares held by the wholly-owned subsidiaries of the Company.

The associates of the Group are all not individually material.

The statutory financial statements of the associates are not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

17. Interests in Joint Ventures

	2019 RMB'000	2018 RMB'000
Share of net assets	23,410,894	19,717,517
Advances to joint ventures	19,585,566	14,998,064
	42,996,460	34,715,581

As at 31 December 2019, except for an aggregate amount of approximately RMB3,671,374,000 (2018: approximately RMB2,908,391,000), which bears interest at 6.0% to 12.0% (2018: 6.0% to 12.0%) per annum, the advances to joint ventures as shown above are unsecured, interest-free and not repayable within 12 months. In the opinion of the directors, these advances were considered as part of the Group's net investments in the joint ventures.

As at 31 December 2019, an amount due from a joint venture included in the Group's current assets of approximately RMB30,062,000 (2018: approximately RMB30,069,000) is unsecured, interest-free and has no fixed terms of repayment.

As at 31 December 2019, the amount due to joint ventures included in the Group's current liabilities of approximately RMB37,742,306,000 (2018: approximately RMB39,294,914,000) is unsecured, interest-free and has no fixed terms of repayment.

17. Interests in Joint Ventures *(continued)*

Particulars of the Group's material joint ventures as at the end of the reporting period are as follows:

Name	Particulars of registered capital	Place of registration and business	2019			Principal activities
			Percentage of			
			Ownership interest	Voting power	Profit sharing	
Chengdu Hongyu Real Estate Development Limited ("Chengdu Hongyu") [#]	US\$699,980,000	PRC/ Mainland China	50	50	50	Property development
Guangzhou Jinjing Property Development Limited ("Guangzhou Jinjing") [#]	RMB50,000,000	PRC/ Mainland China	50	50	50	Property development
Foshan Xinfeng Real Estate Development Limited ("Foshan Xinfeng") [#]	US\$194,000,000	PRC/ Mainland China	50	50	50	Property development
Unicorn Bay Limited ("Unicorn Bay")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Investment holding
Great Smart International Limited ("Great Smart")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Investment holding

Name	Particulars of registered capital	Place of registration and business	2018			Principal activities
			Percentage of			
			Ownership interest	Voting power	Profit sharing	
Chengdu Hongyu Real Estate Development Limited ("Chengdu Hongyu") [#]	US\$699,980,000	PRC/ Mainland China	50	50	50	Property development
Hangzhou Jun'an Real Estate Development Limited ("Hangzhou Jun'an") ^{##}	RMB50,000,000	PRC/ Mainland China	51	51	51	Property development
Hangzhou Hongxin Business Service Limited ("Hangzhou Hongxin") [#]	RMB2,000,000	PRC/ Mainland China	50	50	50	Investment holding
Unicorn Bay Limited ("Unicorn Bay")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Investment holding
Great Smart International Limited ("Great Smart")	US\$50,000	British Virgin Islands/Hong Kong	50	50	50	Investment holding

* Hangzhou Jun'an is accounted for as a joint venture of the Group as all significant operating and financial activities need to be decided by all the joint venture partners.

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those entities, as no English names have been registered.

The above investments are indirectly held through wholly-owned subsidiaries of the Company.

The statutory financial statements of the joint ventures are not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

As at 31 December 2019, Chengdu Hongyu, Guangzhou Jinjing, Foshan Xinfeng, Unicorn Bay and Great Smart, which are considered the material joint ventures of the Group, engage in the property development business in Mainland China and Hong Kong and have been accounted for using the equity method.

Notes to Financial Statements

31 December 2019

17. Interests in Joint Ventures (continued)

The following table illustrates the summarised financial information in respect of Chengdu Hongyu, Guangzhou Jinjing, Foshan Xinfeng, Unicorn Bay and Great Smart adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	Chengdu Hongyu RMB'000	Guangzhou Jinjing RMB'000	2019 Foshan Xinfeng RMB'000	Unicorn Bay RMB'000	Great Smart RMB'000
Current assets	10,200,121	6,109,624	5,940,315	17,852,968	7,713,828
Non-current assets	472,932	61,052	62,207	34,550	457
Total assets	10,673,053	6,170,676	6,002,522	17,887,518	7,714,285
Current liabilities	(2,309,351)	(2,989,297)	(3,724,296)	(674,373)	(3,370,158)
Non-current liabilities	(394,931)	(2,530,000)	-	(6,246,282)	-
Total liabilities	(2,704,282)	(5,519,297)	(3,724,296)	(6,920,655)	(3,370,158)
Revenue	1,854,824	2,157,752	2,061,667	-	-
Profit/(loss) for the year	1,120,156	633,988	605,583	(33,351)	(37,923)
Other comprehensive loss	-	-	-	(382)	(552)
Total comprehensive income/(loss) for the year	1,120,156	633,988	605,583	(33,733)	(38,475)

The following table illustrates the summarised financial information in respect of Chengdu Hongyu, Hangzhou Jun'an, Hangzhou Hongxin, Unicorn Bay and Great Smart adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	Chengdu Hongyu RMB'000	Hangzhou Jun'an RMB'000	2018 Hangzhou Hongxin RMB'000	Unicorn Bay RMB'000	Great Smart RMB'000
Current assets	9,321,209	5,707,190	5,856,576	15,701,229	6,897,604
Non-current assets	452,103	74,123	162,989	161,688	1,066
Total assets	9,773,312	5,781,313	6,019,565	15,862,917	6,898,670
Current liabilities	(2,846,326)	(4,366,727)	(3,826,479)	(552,424)	(2,721,065)
Non-current liabilities	(78,371)	-	(1,499,000)	(6,228,659)	-
Total liabilities	(2,924,697)	(4,366,727)	(5,325,479)	(6,781,083)	(2,721,065)
Revenue	2,458,779	3,684,277	3,416,019	-	-
Profit/(loss) for the year	818,828	772,551	696,682	(7,877)	(9,332)
Other comprehensive loss	-	-	-	-	(336)
Total comprehensive income/(loss) for the year	818,828	772,551	696,682	(7,877)	(9,668)

17. Interests in Joint Ventures *(continued)*

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' profit for the year	1,789,170	296,705
Share of the joint ventures' other comprehensive loss	(72,404)	(183,454)
Share of the joint ventures' total comprehensive income	1,716,766	113,251
Aggregate carrying amount of the Group's investments in the joint ventures	29,891,777	23,593,072

Fair value gains in respect of properties owned by the Group's joint ventures are included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

18. Properties Under Development

	2019 RMB'000	2018 RMB'000
Properties under development expected to be recovered:		
Within one year	29,765,773	26,169,327
More than one year	21,994,917	21,132,997
	51,760,690	47,302,324

The Group's properties under development were mainly located in Mainland China and Hong Kong and are stated at cost.

During the year ended 31 December 2019, certain items of the Group's properties under development with an aggregate carrying value of approximately RMB2,096,993,000 (2018: approximately RMB1,511,432,000) (note 14) were transferred to investment properties.

As at 31 December 2019, certain items of the Group's properties under development with an aggregate carrying amount of approximately RMB13,514,324,000 (2018: approximately RMB17,689,861,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Included in the Group's properties under development as at 31 December 2019 were land costs with an aggregate net carrying amount of approximately RMB544,469,000 (2018: approximately RMB6,240,169,000) in which the Group has not yet obtained land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of certain relevant land use right grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 219 of the annual report.

19. Completed Properties Held for Sale

The Group's completed properties held for sale are located in Mainland China. All completed properties held for sale are stated at the lower of cost and net realisable value.

During the year ended 31 December 2019, the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB516,282,000 (2018: aggregate carrying amount of approximately RMB17,148,000) were transferred to investment properties (note 14).

During the year ended 31 December 2019, no investment property of the Group was transferred to completed properties held for sale (2018: aggregate carrying amount of approximately RMB225,893,000).

As at 31 December 2019, certain items of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB3,667,565,000 (2018: approximately RMB1,029,118,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 219 of the annual report.

20. Trade Receivables

Trade receivables mainly consist of receivables from the sale of properties, rentals under operating leases and provision of property management services and hotel operation. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements, whilst the Group's trading terms with its customers in relation to the provision of rental, property management and other services are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 12 months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	1,654,053	800,653
4 to 6 months	22,434	32,356
7 to 12 months	363,656	87,605
Over 1 year	126,616	37,051
	2,166,759	957,665

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. For the sale of properties, rentals under operating leases and provision of property management services and hotel operation businesses of the Group, management has assessed that the expected credit loss rate for trade receivables is minimal as at 31 December 2019 and 31 December 2018. In the opinion of the directors of the Company, the Group's trade receivables relate to a large number of diversified customers with no recent history of default and the balances are considered fully recoverable considering the historical records and forward-looking information.

21. Prepayments, Other Receivables and Other Assets

	Note	2019 RMB'000	2018 RMB'000
Prepayments		1,347,559	1,826,778
Contract assets		381,935	129,461
Prepaid other taxes		1,680,375	516,365
Prepaid land lease payments	15	-	31,465
Deposits and other receivables		3,991,696	3,902,394
		7,401,565	6,406,463

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. Tax Recoverables/Tax Payables

(a) Tax recoverables

	2019 RMB'000	2018 RMB'000
Prepaid CIT	226,201	172,696
Prepaid LAT	496,579	309,910
	722,780	482,606

(b) Tax payables

	2019 RMB'000	2018 RMB'000
CIT payable	4,551,838	2,764,972
LAT payable	5,374,299	4,086,800
	9,926,137	6,851,772

Notes to Financial Statements

31 December 2019

23. Cash and Cash Equivalents and Restricted Cash

	Notes	2019 RMB'000	2018 RMB'000
Cash and bank balances		29,403,189	22,153,315
Time deposits		27,330,816	34,523,657
		56,734,005	56,676,972
Less: Restricted cash	(a)	(5,356,141)	(4,099,329)
Cash and cash equivalents		51,377,864	52,577,643
		51,451,431	53,425,699
Denominated in RMB	(b)	51,451,431	53,425,699
Denominated in other currencies		5,282,574	3,251,273
		56,734,005	56,676,972

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties.

Certain items of the Group's cash and bank balances and time deposits were restricted to be used in designated purposes or pledged to secure general banking facilities granted to the Group (note 37(a)).

- (b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made at a maximum of three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

24. Trade and Bills Payables

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	9,072,301	4,077,063

The trade and bills payables are non-interest-bearing and are normally settled on demand.

25. Other Payables and Accruals

	Note	2019 RMB'000	2018 RMB'000
Contract liabilities		15,542,373	11,943,271
Other payables and accruals		11,308,048	10,067,536
Other tax payables		723,889	483,124
Deferred income	(a)	13,047	13,308
Payroll payables		39,685	10,232
		27,627,042	22,517,471

Note:

- (a) The deferred income is related to a government grant of RMB203,700,000 received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. During the year, approximately RMB261,000 (2018: approximately RMB336,000) has been credited to the cost of sales.

Other payables are non-interest-bearing and are normally settled on demand.

Notes to Financial Statements

31 December 2019

26. Interest-bearing Bank and Other Borrowings

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payable (c)	-	-	-	5.61	2019	64,057
Bank loans						
- secured	4.75-10.70	2020	3,834,083	4.35-11.16	2019	2,809,608
- denominated in HK\$, secured	-	-	-	HIBOR+1.0-1.5	2019	808,119
- denominated in US\$, secured	2.92	2020	752,545	-	-	-
Current portion of long-term bank loans						
- secured	4.75-9.90	2020	1,535,027	4.75-7.80	2019	890,361
- unsecured	4.75-8.50	2020	1,197,093	4.75-7.00	2019	312,318
- denominated in HK\$, secured	HIBOR+1.8-3.66	2020	582,311	HIBOR+1.8-3.51	2019	255,395
- denominated in US\$, secured	LIBOR+3.51-3.66	2020	318,658	LIBOR+3.51	2019	126,576
Senior notes						
- denominated in US\$, secured (a)	10.25	2020	3,811,567	9.31	2019	4,067,039
Domestic corporate bonds - unsecured (b)	5.61-8.19	2020	11,696,759	4.01-7.79	2019	8,030,459
			<u>23,728,043</u>			<u>17,363,932</u>
Non-current						
Finance lease payable (c)	-	-	-	5.61	2020-2023	254,481
Bank loans						
- secured	4.70-11.00	2021-2043	20,310,775	4.75-10.70	2020-2043	18,444,235
- unsecured	4.75-8.50	2021-2039	2,883,746	4.75-7.00	2020-2023	1,787,700
- denominated in HK\$, secured	HIBOR+1.8-3.66	2021-2022	2,766,011	HIBOR+1.8-3.66	2020-2022	2,674,025
- denominated in US\$, secured	LIBOR+3.51-3.66	2021-2022	1,393,665	LIBOR+3.51-3.66	2020-2022	1,674,694
Senior notes						
- denominated in US\$, secured (a)	5.45-8.27	2021-2024	21,380,020	5.45-10.06	2020-2024	16,434,662
Domestic corporate bonds - unsecured (b)	4.88-7.09	2021-2022	13,115,290	4.88-8.25	2020-2021	19,148,518
			<u>61,849,507</u>			<u>60,418,315</u>
			<u>85,577,550</u>			<u>77,782,247</u>

26. Interest-bearing Bank and Other Borrowings *(continued)*

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	8,219,717	5,202,377
In the second year	12,301,292	8,230,792
In the third to fifth years, inclusive	6,263,692	9,562,862
Beyond five years	8,789,213	6,787,000
	35,573,914	29,783,031
Senior notes repayable:		
Within one year	3,811,567	4,067,039
In the second year	2,415,501	3,721,729
In the third to fifth years, inclusive	18,964,519	10,114,569
Beyond five years	-	2,598,364
	25,191,587	20,501,701
Domestic corporate bonds repayable:		
Within one year	11,696,759	8,030,459
In the second year	12,955,280	8,619,231
In the third to fifth years, inclusive	160,010	10,529,287
	24,812,049	27,178,977
Finance lease payable:		
Within one year	-	64,057
In the second year	-	67,724
In the third to fifth years, inclusive	-	186,757
	-	318,538
	85,577,550	77,782,247

Certain items of the Group's borrowings are secured by the Group's assets, details of which are disclosed in note 37.

Except for the above-mentioned borrowings denominated in HK\$ and US\$, all borrowings were denominated in RMB as at the end of the reporting period.

26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes:

- (a) On 7 January 2014, the Company issued 8.975% senior notes with an aggregate principal amount of US\$600,000,000 (equivalent to approximately RMB3,662,520,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 14 January 2019. The senior notes carry interest at a rate of 8.975% per annum, which is payable semi-annually in arrears on 14 January and 14 July of each year commencing on 14 July 2014. For further details on the senior notes, please refer to the related announcements of the Company dated 7 January 2014, 8 January 2014 and 14 January 2014.

On 11 January 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,733,113,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 11 January 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 11 January and 11 July of each year, commencing on 11 July 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 29 December 2016, 30 December 2016 and 11 January 2017.

On 15 March 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,772,980,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year, commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 9 March 2017, 10 March 2017 and 16 March 2017.

On 29 March 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$100,000,000 (equivalent to approximately RMB 672,638,000) (to be consolidated and form a single series with the US\$400,000,000 6.00% senior notes due 2022 issued on 15 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017 and 29 March 2017.

On 21 September 2017, the Company issued 5.20% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,646,675,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 21 September 2022. The senior notes carry interest at a rate of 5.20% per annum, which is payable semi-annually in arrears on 21 March and 21 September of each year, commencing on 21 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 18 September 2017, 19 September 2017 and 22 September 2017.

On 10 November 2017, the Company issued 5.875% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,651,280,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 November 2024. The senior notes carry interest at a rate of 5.875% per annum, which is payable semi-annually in arrears on 10 May and 10 November of each year commencing on 10 May 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 7 November 2017, 8 November 2017 and 10 November 2017.

On 7 December 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$150,000,000 (equivalent to approximately RMB992,925,000) (to be consolidated and form a single series with the US\$400,000,000 6.00% senior notes due 2022 issued on 15 March 2017, and the US\$100,000,000 6.00% senior notes due 2022 issued on 29 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017, 29 March 2017, 1 December 2017 and 7 December 2017.

On 9 August 2018, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,391,095,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 9 August 2021. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 9 February and 9 August of each year commencing on 9 February 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 31 July 2018, 1 August 2018 and 9 August 2018.

26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

(a) *(continued)*

On 26 November 2018, the Company issued 9.85% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,778,120,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 26 November 2020. The senior notes carry interest at a rate of 9.85% per annum, which is payable semi-annually in arrears on 26 May and 26 November of each year commencing on 26 May 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 14 November 2018, 15 November 2018 and 26 November 2018.

On 11 December 2018, the Company issued 9.85% senior notes with an aggregate principal amount of US\$150,000,000 (equivalent to approximately RMB1,034,940,000) (to be consolidated and form a single series with the US\$400,000,000 9.85% senior notes due 2020 issued on 26 November 2018). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 26 November 2020. The senior notes carry interest at a rate of 9.85% per annum, which is payable semi-annually in arrears on 26 May and 26 November of each year commencing on 26 May 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 30 November 2018 and 11 December 2018.

On 1 March 2019, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,343,495,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 1 September 2023. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 1 March and 1 September of each year commencing on 1 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 21 February 2019, 22 February 2019 and 1 March 2019.

On 22 March 2019, the Company issued 7.875% senior notes with an aggregate principal amount of US\$350,000,000 (equivalent to approximately RMB2,343,040,000) (to be consolidated and form a single series with the US\$350,000,000 7.875% senior notes due 2023 issued on 1 March 2019). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 1 September 2023. The senior notes carry interest at a rate of 7.875% per annum, which is payable semi-annually in arrears on 1 March and 1 September of each year commencing on 1 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 20 March 2019 and 22 March 2019.

On 3 July 2019, the Company issued 5.875% senior notes with an aggregate principal amount of US\$225,000,000 (equivalent to approximately RMB1,544,400,000) (to be consolidated and form a single series with the US\$400,000,000 5.875% senior notes due 2024 issued on 10 November 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 November 2024. The senior notes carry interest at a rate of 5.875% per annum, which is payable semi-annually in arrears on 10 May and 10 November of each year commencing on 10 November 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 25 June 2019 and 3 July 2019.

On 29 July 2019, the Company issued 7.4% senior notes with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB2,064,630,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 5 March 2024. The senior notes carry interest at a rate of 7.4% per annum, which is payable semi-annually in arrears on 5 March and 5 September of each year commencing on 5 September 2019. For further details on the senior notes, please refer to the related announcements of the Company dated 22 July 2019, 23 July 2019 and 29 July 2019.

(b)(i) On 17 December 2015, Guangzhou Hejing, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,300,000,000. The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 4.94% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 1 Bonds"), and the second type has a term of seven years and bears a coupon rate at 6.15% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 2 Bonds").

The aggregate principal amount for the Type 1 Bonds issued was RMB2,500,000,000 and the aggregate principal amount for the Type 2 Bonds issued was RMB800,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 15 December 2015 and 16 December 2015.

26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(ii) On 28 March 2016, Guangzhou Tianjian, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,200,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 3.90% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 3 Bonds"), and the second type has a term of ten years and bears a coupon rate at 4.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 4 Bonds").

The aggregate principal amount for the Type 3 Bonds issued was RMB600,000,000 and the aggregate principal amount for the Type 4 Bonds issued was RMB1,600,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 24 March 2016 and 28 March 2016.

- (b)(iii) On 26 April 2016, Guangzhou Tianjian issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB6,500,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of seven years and bears a coupon rate at 5.60% per annum with the issuer's option to raise the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 5 Bonds"), and the second type has a term of seven years and bears a coupon rate at 5.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 6 Bonds").

The aggregate principal amount for the Type 5 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 6 Bonds issued was RMB5,500,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 7 April 2016 and 26 April 2016.

- (b)(iv) On 21 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,000,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.85% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors can exercise a retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 21 July 2016.

- (b)(v) On 28 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,300,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.95% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investor can exercise a retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 28 July 2016.

26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(vi) On 30 September 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB8,000,000,000.

The domestic corporate bonds consist of three types, of which the first type has a term of seven years and bears a coupon rate at 5.6% per annum with the issuer's option to adjust the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 7 Bonds"), the second type has a term of seven years and bears a coupon rate at 5.7% per annum with the issuer's option to adjust the coupon rate after the end of the fourth and a half year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 8 Bonds"), and the third type has a term of seven years and bears a coupon rate at 5.8% per annum with the issuer's option to adjust the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 9 Bonds").

The aggregate principal amount for the Type 7 Bonds issued was RMB2,500,000,000; the aggregate amount for Type 8 Bonds issued was RMB2,500,000,000 and the aggregate amount for Type 9 Bonds issued was RMB3,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 30 September 2016.

- (b)(vii) On 26 September 2017, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 7.85% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 10 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum with the issuer's option to raise the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 11 Bonds").

The aggregate principal amount for the Type 10 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 11 Bonds issued was RMB2,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 25 September 2017 and 26 September 2017.

- (b)(viii) On 16 October 2017, Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 8.00% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 12 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum with the issuer's option to raise the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 13 Bonds").

The aggregate principal amount for the Type 12 Bonds issued was RMB840,000,000 and the aggregate principal amount for the Type 13 Bonds issued was RMB2,160,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 16 October 2017.

26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(ix) From November to December 2018, the Group repurchased the Type 1 Bonds of Guangzhou Hejing with an aggregate principal amount of RMB2,025,239,000. From January to March 2019, the Type 1 Bonds of Guangzhou Hejing mentioned above were sold to third-party investors.
- (b)(x) From March to April 2019, the Group repurchased the Type 3 Bonds with an aggregate principal amount of RMB600,000,000. In May and September 2019, the Type 3 Bonds of Guangzhou Tianjian with total aggregate principal amounts of RMB100,000,000 and RMB60,000,000 were sold to third-party investors, respectively.
- (b)(xi) From August to September 2019, a wholly-owned subsidiary of the Group repurchased the Type 11 Bonds of Guangzhou Hejing with an aggregate principal amount of RMB1,450,000,000. From September to December 2019, the Type 11 Bonds of Guangzhou Hejing with an aggregate principal amount of RMB1,160,000,000 were sold to the third-party investors.
- (b)(xii) In October 2019, Guangzhou Hejing redeemed the Type 13 Bonds with an aggregate principal amount of RMB530,000,000. In September 2019, the Group repurchased the Type 13 Bonds of Guangzhou Hejing with an aggregate principal amount of RMB575,000,000. From September to December 2019, the Type 13 Bonds of Guangzhou Hejing with an aggregate principal amount of RMB325,000,000 were sold to third-party investors.
- (b)(xiii) From June to August 2019, the Group repurchased the bonds of the Company issued in July 2016 with an aggregate principal amount of RMB2,912,000,000.
- (c) Finance lease payable

In 2018, the Group entered into an aircraft rental agreement with an independent third party under a finance lease. Under the finance lease arrangement, the Group leased an aircraft for an agreed term of five years commencing from 15 September 2018. The lessor will transfer the ownership of the underlying asset to the Group at the maturity date of the lease or the early repayment date.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

Note	Minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2018 RMB'000
Amounts payable:		
Within one year	80,580	64,057
In the second year	80,580	67,724
In the third to fifth years, inclusive	201,450	186,757
Total minimum finance lease payments	362,610	318,538
Future finance charges	(44,072)	
Total net finance lease payable	318,538	
Portion classified as current liabilities	(64,057)	
Non-current portion	254,481	

At 1 January 2019, the finance lease payable was transferred to lease liabilities upon the application of HKFRS 16.

27. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Revaluation of properties RMB'000	Withholding taxes RMB'000	Recognition of revenue over time RMB'000	Right-of-use assets RMB'000	Others RMB'000	Total RMB'000
At 31 December 2018	84,181	70,980	2,030,315	139,720	153,669	-	9,725	2,488,590
Effect of adoption of HKFRS 16 (note 2.2)	-	-	-	-	-	457,693	-	457,693
At 1 January 2019 (restated)	84,181	70,980	2,030,315	139,720	153,669	457,693	9,725	2,946,283
Movements during the year	8,007	268,297	959,173	-	41,476	11,845	9,275	1,298,073
Gross deferred tax liabilities at 31 December 2019	92,188	339,277	2,989,488	139,720	195,145	469,538	19,000	4,244,356

Deferred tax assets

	Depreciation allowance in excess of related depreciation RMB'000	Provision for LAT RMB'000	Losses available for offset against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2018	2,711	1,741,003	538,954	197,200	3,327	-	2,483,195
Effect of adoption of HKFRS 16 (note 2.2)	-	-	-	-	-	444,734	444,734
At 1 January 2019 (restated)	2,711	1,741,003	538,954	197,200	3,327	444,734	2,927,929
Movements during the year	249	304,095	(177,022)	376,875	(65)	23,089	527,221
Gross deferred tax assets at 31 December 2019	2,960	2,045,098	361,932	574,075	3,262	467,823	3,455,150
Net deferred tax liabilities at 31 December 2019							(789,206)

Notes to Financial Statements

31 December 2019

27. Deferred Tax (continued)

Deferred tax liabilities

	2018						
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Revaluation of properties RMB'000	Withholding taxes RMB'000	Recognition of revenue over time RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	76,534	85,553	1,675,507	139,720	–	9,725	1,987,039
Movements during the year	7,647	(14,573)	354,808	–	153,669	–	501,551
Gross deferred tax liabilities at 31 December 2018	84,181	70,980	2,030,315	139,720	153,669	9,725	2,488,590

Deferred tax assets

	2018					
	Depreciation in excess of related depreciation allowance RMB'000	Provision for LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Total RMB'000
At 1 January 2018	2,465	1,637,778	245,265	123,657	3,411	2,012,576
Movements during the year	246	103,225	293,689	73,543	(84)	470,619
Gross deferred tax assets at 31 December 2018	2,711	1,741,003	538,954	197,200	3,327	2,483,195
Net deferred tax liabilities at 31 December 2018						(5,395)

27. Deferred Tax *(continued)***Deferred tax assets** *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,872,238	1,642,044
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,661,444)	(1,647,439)
	(789,206)	(5,395)

The Group has unutilised tax losses arising in Mainland China of approximately RMB2,592,639,000 (2018: approximately RMB2,872,135,000) that will expire in one to five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB1,144,911,000 (2018: approximately RMB716,319,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2019, unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China of approximately RMB29,373,335,000 (2018: approximately RMB13,373,810,000) have not been recognised for withholding taxes.

Taking into account the Group's dividend policy and the working capital demand for business operation in Mainland China, the directors of the Company are of the view that it is the best interest of the Company to distribute its final dividend in the foreseeable future out of the share premium account of the Company, which is permissible by the Companies Law of the Cayman Islands and is also permissible by the Company's articles of association upon the approval of the Company's shareholders at the annual general meeting.

27. Deferred Tax *(continued)*

Deferred tax assets *(continued)*

In the opinion of the directors of the Company, the Company has sufficient distributable reserves, including the Company's share premium to meet its dividend policy in the foreseeable future, and it is not probable that dividends would be declared by the Group's subsidiaries and joint ventures established in Mainland China in the foreseeable future. Accordingly, the Group did not provide additional deferred tax related to the unremitted earnings of the Group's subsidiaries and joint ventures established in Mainland China that are subject to withholding taxes once distributed.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. Deferred Revenue

The Group entered into an agreement with a vendor (the "Vendor") on 7 July 2011, pursuant to which the Group should pay a cash consideration of RMB43,400,000, and transfer certain apartments and car parking spaces (collectively, the "Transfer Properties") of RMB11,000,000 to the Vendor, in exchange for the 10% equity interest in Shanghai Deyu. The exchange of the Transfer Properties is accounted for as a transaction which generates revenue. During the year ended 31 December 2014, the Group entered into a supplemental agreement with the Vendor, pursuant to which the Group paid a cash consideration of RMB8,958,000 to the Vendor in place of transferring partial apartments and car parking spaces to the Vendor. As at 31 December 2019, the remaining apartments and car parking spaces had not been transferred to the Vendor. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the remaining parts of the Transfer Properties.

29. Share Capital

Shares

	2019		2018	
	No. of shares	RMB'000	No. of shares	RMB'000
Authorised:				
Ordinary shares of HK\$0.10 each	8,000,000,000	786,113	8,000,000,000	786,113
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	3,176,749,463	304,148	3,174,071,756	303,909

29. Share Capital *(continued)***Shares** *(continued)*

A summary of movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2018	3,155,155,055	302,355	-	5,295,047	5,597,402
Final 2017 dividend declared	-	-	-	(978,098)	(978,098)
Shares issued as scrip dividend during the year	17,496,701	1,429	-	125,716	127,145
Issue of treasury shares (note)	1,420,000	125	(125)	-	-
Interim 2018 dividend	-	-	-	(788,789)	(788,789)
At 31 December 2018 and 1 January 2019	3,174,071,756	303,909	(125)	3,653,876	3,957,660
Final 2018 dividend declared	-	-	-	(983,962)	(983,962)
Shares issued as scrip dividend during the year	723,707	63	-	5,263	5,326
Issue of treasury shares (note)	1,954,000	176	(176)	-	-
Vested awarded shares transferred to employees	-	-	125	15,310	15,435
Interim 2019 dividend	-	-	-	(1,020,309)	(1,020,309)
At 31 December 2019	3,176,749,463	304,148	(176)	1,670,178	1,974,150

Note: During the year ended 31 December 2019, 1,954,000 (2018: 1,420,000) new shares of HK\$0.10 each were issued to the trustee for the purpose of the Share Award Scheme as further disclosed in note 30 to the financial statements. These 1,954,000 (2018: 1,420,000) shares are held by the trustee and were recorded in treasury shares upon the issue of new shares.

30. Employee Share Schemes

(a) Share option scheme

Pursuant to the shareholder's resolutions of the Company passed on 9 February 2018, the Company has adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants (the "Eligible Participants") who will contribute and has contributed to the success of the Group's operations. Eligible participants of the Share Option Scheme include any directors, full-time or part-time employees, executives or officers, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of shares that may be issued upon the exercise of the options that may be granted under the Share Option Scheme is 10% of the total number of issued shares as at the date of the adoption of the Share Option Scheme. The aggregate number of shares which may be issued upon the exercise of all options that may be granted under the Share Option Scheme has not exceeded 30% of the shares in issue as at the latest practicable date. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the issue of a circular by the Company and the shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000 or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange of Hong Kong Limited closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange of Hong Kong Limited closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 9 February 2018, the Group granted 1,719,000 share options with an exercise price of HK\$12.024 per share upon the acceptance of the grantees (the "Grantees") of the Group. None of the Grantees is a director, chief executive and substantial shareholder of the Company.

30. Employee Share Schemes *(continued)*

(a) Share option scheme *(continued)*

On 12 February 2018, as approved by the board of the Company, and consented by each of the Grantees, share options granted on 9 February 2018 had been cancelled.

On 13 February 2018, the Group granted 1,719,000 share options with an exercise price of HK\$11.12 per share upon the acceptance of the Grantees of the Group. None of the Grantees is a director, chief executive and substantial shareholder of the Company.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Weighted average exercise price (HK\$ per share)	Number of options	Weighted average exercise price (HK\$ per share)	Number of options
At 1 January	11.12	1,569,000	–	–
Granted	–	–	11.572	3,438,000
Cancelled	–	–	12.024	(1,719,000)
Lapsed	11.12	(75,000)	11.12	(150,000)
At 31 December	11.12	1,494,000	11.12	1,569,000

None of the above share options were exercised in 2019 (2018: Nil).

The share options granted to the directors of the Company and employees of the Group are exercisable during the following periods:

Share options granted on 13 February 2018

- (i) Each grantee may exercise not more than one-third of his respective options granted from the first anniversary of the date of grant (i.e. 13 February 2019);
- (ii) Each grantee may exercise not more than one-third of his respective options granted from the second anniversary of the date of grant (i.e. 13 February 2020); and
- (iii) Each grantee may exercise all his respective remaining options granted from the date of the third anniversary of the date of grant (i.e. 13 February 2021).

And, in each case, not later than 12 February 2022.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair value of the share options granted on 13 February 2018 determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$4,058,000. Approximately HK\$1,121,000 (equivalent to approximately RMB1,008,000) was charged to the statement of profit or loss during the year ended 31 December 2019 (2018: HK\$1,642,000 (equivalent to approximately RMB1,438,000)).

30. Employee Share Schemes *(continued)*

(a) Share option scheme *(continued)*

The following inputs were used to calculate the fair values of the share options granted:

	Options granted on 13 February 2018
Exercise price	HK\$11.12
Expected life	4 years
Expected volatility	43.35%
Expected dividend yield (%)	7.18%
Risk-free interest rate (%)	0.84%

At 31 December 2019, the Company had 1,494,000 (31 December 2018: 1,569,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,494,000 (31 December 2018: 1,569,000) additional ordinary shares of the Company, additional share capital of HK\$149,400 (equivalent to approximately RMB134,000) (31 December 2018: HK\$156,900 (equivalent to approximately RMB137,000)) and share premium of approximately HK\$16,464,000 (equivalent to approximately HK\$14,748,000) (31 December 2018: HK\$17,290,000 (equivalent to approximately RMB15,150,000)) (before issue expenses).

(b) Share award scheme

The Share Award Scheme was adopted by the Board on 19 January 2018 in order to recognise the contributions by certain employees including certain executive directors of the Company and/or members of the Group (the "Eligible Participant"). Subject to the rules of the Share Award Scheme (the "Scheme Rules"), the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any excluded participant as defined under the Scheme Rules) for participation in the Share Award Scheme as a selected participant (the "Selected Participant"), and determine the number of shares to be granted to the Selected Participant.

The Share Award Scheme shall be valid and effective for a term of 10 years commencing on the date of adoption. Pursuant to the Share Award Scheme, the trustee, Computershare Hong Kong Trustees Limited and any additional or replacement trustee, shall purchase from the open market or subscribe for the relevant number of shares awarded and shall hold such shares on trust for the Selected Participants until they are vested in the relevant Selected Participant in accordance with the provisions of the Share Award Scheme. The Board, through its authorised representative(s), shall cause to pay to the trustee the subscription or purchase price for the shares and the related expenses from the Company's resources.

30. Employee Share Schemes *(continued)*

(b) Share award scheme *(continued)*

The Board shall not make any further award of awarded shares which will result in the total number of shares granted under the Share Award Scheme exceeding 5% of the total number of issued Shares of the Company from the date of adoption. If the relevant subscription or purchase would result in the trustee holding in aggregate, more than 5% of the total number of issued shares of the Company as of the adoption date, the trustee shall not subscribe or purchase any further shares.

On 19 January 2018, the Board resolved to grant an aggregate of 4,393,500 awarded shares to 28 eligible participants and on 18 October 2018, the Board resolved to grant 192,000 awarded shares to an eligible participant under the Share Award Scheme. The awarded shares shall be vested in three tranches in accordance with the following dates: (i) one-third shall be vested on the first anniversary of the date of grant, i.e. 19 January 2019; (ii) one-third shall be vested on the second anniversary of the date of grant, i.e. 19 January 2020; and (iii) the remaining one-third shall be vested on the third anniversary of the date of grant, i.e. 19 January 2021, or an earlier date as approved by the Board.

On 8 April 2019, the Board resolved to grant a total of 2,059,500 awarded shares to 27 eligible participants under the Share Award Scheme. The awarded shares shall be vested in three tranches in accordance with the following dates: (i) one-third shall be vested on the first anniversary of the date of grant, i.e. 8 April 2020; (ii) one-third shall be vested on the second anniversary of the date of grant, i.e. 8 April 2021; and (iii) the remaining one-third shall be vested on the third anniversary of the date of grant, i.e. 8 April 2022, or an earlier date as approved by the Board.

The fair value of these awarded shares at the grant date approximated to the market value of the shares which is calculated based on the closing price of the shares as at the date of grant of the awarded shares.

Movements in the number of awarded shares are as follows:

	2019 Number of shares awarded	2018 Number of shares awarded
At 1 January	4,260,000	–
Granted	2,059,500	4,585,500
Lapsed	(328,000)	(325,500)
Vested	(1,420,000)	–
At 31 December	4,571,500	4,260,000

Under the Share Award Scheme, the Group recognised share-based compensation expenses of RMB20,226,000 (2018: RMB27,338,000) during the year ended 31 December 2019.

31. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 103 to 104 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries which are registered in the PRC shall appropriate a certain percent of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2019, the Group appropriated approximately RMB388,329,000 (2018: approximately RMB187,639,000) to these reserve funds in accordance with the relevant laws and regulations in the PRC.

32. Investments in Joint Operations

The Group has entered into three (2018: three) joint venture arrangements in the form of joint operations with certain parties, to jointly undertake three (2018: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2019, the aggregate amounts of assets and liabilities recognised in respect of these joint operations were as follows:

	2019 RMB'000	2018 RMB'000
Assets	4,321,776	4,192,113
Liabilities	(123,139)	(146,500)

33. Business Combination

Acquisition of Subsidiaries

- (i) During the year ended 31 December 2019, the Group acquired interests in two companies from third parties. These acquired companies' principal activities are education and property management.

The fair values of the identifiable assets and liabilities of these acquired companies as at the dates of acquisitions were summarised as follows:

	Note	Fair value recognised on acquisitions RMB'000
Total considerations		205,507
Total recognised amounts of identifiable assets acquired and liabilities assumed		
Property, plant and equipment	13	46
Other non-current asset		211,928
Deferred tax assets		73
Properties under development		474
Prepayments, other receivables and other assets		44,512
Trade receivables		11,011
Cash and cash equivalents		28,830
Trade payables		(4,459)
Other payables and accruals		(59,069)
Tax payables		(2,224)
Deferred tax liabilities		(21,420)
Total identifiable net assets at fair value		209,702
Non-controlling interests		(4,195)
Satisfied by cash		165,507
Satisfied by other payables		40,000

An analysis of the cash flows in respect of the acquisitions of these two subsidiaries is as follows:

	RMB'000
Cash considerations	(165,507)
Cash and cash equivalents acquired	28,830
Net outflow of cash and cash equivalents included in cash flows from investing activities	(136,677)

Since the acquisitions, these two companies contributed revenue and profit of approximately RMB98,822,000 and RMB15,498,000, respectively to the Group.

Had the combinations taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 2019 would have been approximately RMB24,965,680,000 and RMB10,058,319,000, respectively.

33. Business Combination (continued)**Acquisition of Subsidiaries** (continued)

- (ii) During the year ended 31 December 2019, the Group acquired interests in two companies from third parties. These acquired companies' principal activities are property development.

The fair values of the identifiable assets and liabilities of these acquired companies as at the dates of acquisitions were summarised as follows:

	Note	Fair value recognised on acquisitions RMB'000
Total considerations		169,250
Total recognised amounts of identifiable assets acquired and liabilities assumed		
Property, plant and equipment	13	821
Deferred tax assets		36,379
Properties under development		4,369,012
Prepayments, other receivables and other assets		3,058,607
Trade receivables		2,583
Cash and cash equivalents		387,370
Trade payables		(297,224)
Other payables and accruals		(4,573,040)
Tax payables		(745,644)
Interest-bearing bank and other borrowings		(651,340)
Deferred tax liabilities		(296,810)
Total identifiable net assets at fair value		1,290,714
Equity interests in the companies held by the Group prior to the acquisitions		(330,246)
Satisfied by cash		169,250
Gains on acquisitions of subsidiaries		791,218

An analysis of the cash flows in respect of the acquisitions of these two subsidiaries is as follows:

	RMB'000
Cash considerations	(169,250)
Cash and cash equivalents acquired	387,370
Net inflow of cash and cash equivalents included in cash flows from investing activities	218,120

Since the acquisitions, these two companies contributed revenue and profit of approximately RMB1,599,673,000 and RMB407,180,000, respectively to the Group.

Had the combinations taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 2019 would have been approximately RMB25,004,489,000 and RMB10,040,273,000, respectively.

33. Business Combination *(continued)*

Acquisition of Subsidiaries *(continued)*

- (iii) During the year ended 31 December 2018, the Group previously held a 90% equity interest in Suzhou City Kaiyu Real Estate Development Limited ("Suzhou Kaiyu") and accounted for Suzhou Kaiyu as a joint venture of the Group. Suzhou Kaiyu is principally engaged in property development. On 3 May 2018, the Group acquired the remaining 10% equity interest in Suzhou Kaiyu from Suzhou City Jinzu Properties Co., Ltd[#]. The purchase consideration for the acquisition was in the form of cash, with RMB204,700,000.

The fair values of the identifiable assets and liabilities of Suzhou Kaiyu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Investment properties	14	1,686,000
Property, plant and equipment	13	289,988
Land use rights	15	74,847
Properties under development		192,528
Prepayments, other receivables and other assets		4,662,696
Cash and cash equivalents		120,025
Trade receivables		248
Deferred tax assets		27,283
Tax payables		(72,357)
Trade payables		(57,214)
Other payables and accruals		(4,267,044)
Interest-bearing bank and other borrowings		(610,000)
Total identifiable net asset at fair value		2,047,000
90% equity interest in Suzhou Kaiyu held by the Group prior to the acquisition		(1,842,300)
Satisfied by cash		204,700

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(204,700)
Cash and cash equivalents acquired	120,025
Net outflow of cash and cash equivalents included in cash flows from investing activities	(84,675)

Since the acquisition, Suzhou Kaiyu contributed revenue of approximately RMB75,012,000 to the Group and caused loss of approximately RMB161,489,000 to the Group's consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year 31 December 2018 would have been approximately RMB7,486,552,000 and RMB4,146,267,000, respectively.

[#] The English name of this company referred to in these financial statements represents management's best effort to translate the Chinese name of the company, as no English name has been registered.

Notes to Financial Statements

31 December 2019

34. Disposal of a Subsidiary

During the year ended 31 December 2018, the Group entered into a share transfer agreement for the disposal of its entire equity interest in a wholly-owned subsidiary for a consideration of RMB1,878,566,000.

Details of the assets disposed of as at the date of disposal under the share transfer agreements and the financial impacts are summarised below:

	Notes	RMB'000
Net asset disposed of:		
Trade receivables		60
Cash and cash equivalents		5,685
Properties under development		589,157
Investment properties	14	1,397,000
Prepayments, other receivables and other assets		85
Trade payables		(443)
Tax payables		(107)
Deferred tax liabilities		(125,421)
Other payables and accruals		(1,154,818)
		711,198
Gain on disposal of a subsidiary	5	1,167,368
		1,878,566

An analysis of the net cash inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration received	1,878,566
Cash and cash equivalents disposed	(5,685)
Net cash inflow of cash and cash equivalents in respect of the disposal of a subsidiary	1,872,881

35. Notes to the Consolidated Statement of Cash Flows

(a) Derecognition of subsidiaries

- (i) During the year ended 31 December 2019, the Group entered into the shareholder agreement with Guangzhou Zhenli Investment Development Limited (“Guangzhou Zhenli”)[#]. According to the agreement, all significant resolutions of Hefei Mingyu Real Estate Development Limited (“Hefei Mingyu”)[#], a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhenli unanimously, hence the Group has no control over Hefei Mingyu, and accordingly, Hefei Mingyu is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Notes	RMB'000
Net asset derecognised:		
Properties under development		2,748,000
Prepayments, deposits and other receivables		661,741
Tax recoverables		1,564
Cash and cash equivalents		42,065
Trade payables		(13,734)
Other payables and accruals		(2,225,793)
Deferred tax liabilities		(39,717)
Interest-bearing bank and other borrowings	35(c)	(999,990)
Net asset value derecognised		174,136
Equity interest in the company held by the Group prior to derecognition		45,797
Gain on derecognition of Hefei Mingyu	5	128,339

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu is as follows:

	RMB'000
Cash and cash equivalents derecognised	(42,065)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu	(42,065)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows *(continued)*

(a) Derecognition of subsidiaries *(continued)*

- (ii) During the year ended 31 December 2019, the Group entered into the shareholder agreement with Guangzhou Zhanyu Investment Development Limited (“Guangzhou Zhanyu”)[#]. According to the agreement, all significant resolutions of Wenzhou Jinxuan Real Estate Development Limited (“Wenzhou Jinxuan”)[#], a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhanyu unanimously, hence the Group has no control over Wenzhou Jinxuan, and accordingly, Wenzhou Jinxuan is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Notes	RMB'000
Net asset derecognised:		
Property, plant and equipment	13	74
Properties under development		1,829,000
Prepayments, deposits and other receivables		697,058
Tax recoverables		4,812
Cash and cash equivalents		121,924
Trade payables		(48,912)
Other payables and accruals		(1,924,573)
Deferred tax liabilities		(27,009)
Interest-bearing bank and other borrowings	35(c)	(527,510)
Net asset value derecognised		124,864
Equity interest in the company held by the Group prior to derecognition		39,069
Gain on derecognition of Wenzhou Jinxuan	5	85,795

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Wenzhou Jinxuan is as follows:

	RMB'000
Cash and cash equivalents derecognised	(121,924)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Wenzhou Jinxuan	(121,924)

[#] The English names of these companies referred to in these financial statements represent management’s best effort to translate the Chinese names of these companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows *(continued)*

(a) Derecognition of subsidiaries *(continued)*

- (iii) During the year ended 31 December 2019, the Group entered into the shareholder agreement with Guangzhou Zhenli#. According to the agreement, all significant resolutions of Guangxi Junrong Properties Limited ("Guangxi Junrong")#, a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Zhenli unanimously, hence the Group has no control over Guangxi Junrong, and accordingly, Guangxi Junrong is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Notes	RMB'000
Net asset derecognised:		
Property, plant and equipment	13	80
Properties under development		2,760,000
Prepayments, deposits and other receivables		375,162
Tax recoverables		7,138
Cash and cash equivalents		244,431
Trade payables		(89,933)
Other payables and accruals		(1,561,385)
Deferred tax liabilities		(217,004)
Interest-bearing bank and other borrowings	35(c)	(1,051,382)
Net asset value derecognised		467,107
Equity interest in the company held by the Group prior to derecognition		(10,120)
Gain on derecognition of Guangxi Junrong	5	477,227

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Guangxi Junrong is as follows:

	RMB'000
Cash and cash equivalents derecognised	(244,431)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Guangxi Junrong	(244,431)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows *(continued)***(a) Derecognition of subsidiaries** *(continued)*

- (iv) During the year ended 31 December 2019, the Group entered into the shareholder agreement with Shenzhen Tongchuang Group Limited# (“Shenzhen Tongchuang”) and Shenzhen Xiaoma Huanteng Investment Development Limited# (“Shenzhen Xiaoma Huanteng”). According to the agreement, all significant resolutions of Shenzhen Chuangshihe Industrial Limited# (“Shenzhen Chuangshihe”), a 51% owned subsidiary of the Company before entering into the agreement, shall be approved by the Group, Shenzhen Tongchuang and Shenzhen Xiaoma Huanteng unanimously, hence the Group has no control over Shenzhen Chuangshihe, and accordingly, Shenzhen Chuangshihe is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Notes	RMB'000
Net asset derecognised:		
Property, plant and equipment	13	6
Deferred tax assets		2,054
Properties under development		3,431,676
Trade receivables		30
Prepayments, deposits and other receivables		758,868
Cash and cash equivalents		6,055
Trade payables		(31)
Other payables and accruals		(1,103,102)
Interest-bearing bank and other borrowings	35(c)	(1,000,000)
Net asset value derecognised		2,095,556
Attributable to non-controlling interest		1,026,822

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Shenzhen Chuangshihe is as follows:

	RMB'000
Cash and cash equivalents derecognised	(6,055)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Shenzhen Chuangshihe	(6,055)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows *(continued)***(a) Derecognition of subsidiaries** *(continued)*

- (v) During the year ended 31 December 2019, the Group derecognised of interests in a number of subsidiaries.

Details of the net assets derecognised as at the date of derecognitions and the financial impacts were summarised below:

	Note	RMB'000
Net assets derecognised:		
Deferred tax assets		781
Properties under development		6,236,901
Prepayments, other receivables and other assets		181,980
Cash and cash equivalents		766,110
Trade payables		(701)
Other payables and accruals		(5,797,026)
Tax payables		(154)
Interest-bearing bank and other borrowings	35(c)	(1,180,000)
Net assets value derecognised		207,891
Attributable to non-controlling interest		148,508

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of these companies is as follows:

	RMB'000
Cash and cash equivalents derecognised	(766,110)
Net cash outflow of cash and cash equivalents in respect of the derecognition of these companies	(766,110)

35. Notes to the Consolidated Statement of Cash Flows (continued)**(a) Derecognition of subsidiaries** (continued)

- (vi) During the year ended 31 December 2018, the Group entered into the cooperation agreement with Shanghai Red Star Macalline Property Limited ("Shanghai Red Star Macalline")#. According to the agreement, all significant resolutions of Nantong Nanjing Real Estate Development Limited ("Nantong Nanjing")#, a non-wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Shanghai Red Star Macalline unanimously, and hence the Group has no unilateral control, but has joint control over Nantong Nanjing, and accordingly, Nantong Nanjing is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Note	RMB'000
Net asset derecognised:		
Deferred tax assets		1,736
Cash and cash equivalents		26,058
Properties under development		1,114,493
Prepayments, other receivables and other assets		627,681
Trade payables		(29)
Interest-bearing bank and other borrowings	35(c)	(532,240)
Other payables and accruals		(140,990)
Net asset value derecognised		1,096,709
Attributable to non-controlling interests		537,387

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Nantong Nanjing is as follows:

	RMB'000
Cash and cash equivalents derecognised	(26,058)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Nantong Nanjing	(26,058)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese name of those companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows (Continued)

(a) Derecognition of subsidiaries (Continued)

- (vii) During the year ended 31 December 2018, the Group entered into the shareholder agreement with Zhuhai Yiyun Property Limited ("Zhuhai Yiyun")#, pursuant to which, Zhuhai Yiyun injected a cash consideration of RMB1,000,000 to obtain 50% of a fully diluted equity interest in Guangzhou Hejing Longtai Real Estate Development Limited ("Guangzhou Hejing Longtai")#, a wholly-owned subsidiary of the Company before the capital injection. Subsequent to the capital injection by Zhuhai Yiyun, all significant resolutions of Guangzhou Hejing Longtai shall be approved by Zhuhai Yiyun, hence the Group has no control, but has significant influence over Guangzhou Hejing Longtai, and accordingly, Guangzhou Hejing Longtai is accounted for as an associate of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Note	RMB'000
Net asset derecognised:		
Property, plant and equipment	13	76
Properties under development		939,229
Prepayments, other receivables and other assets		664
Cash and cash equivalents		55,630
Trade payables		(9)
Other payables and accruals		(996,496)
Net asset value derecognised		(906)

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Guangzhou Hejing Longtai is as follows:

	RMB'000
Cash and cash equivalents derecognised	(55,630)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Guangzhou Hejing Longtai	(55,630)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese name of those companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows (Continued)

(a) Derecognition of subsidiaries (Continued)

- (viii) During the year ended 31 December 2018, the Group entered into the shareholder agreement with Hainan Jingye Real Estate Development Limited (“Hainan Jingye”)[#], pursuant to which, Hainan Jingye injected a cash consideration of RMB4,000,000 to obtain 80% of a fully diluted equity interest in Guangzhou City Pusheng Real Estate Development Limited (“Guangzhou Pusheng”)[#], a wholly-owned subsidiary of the Company before the capital injection. Subsequent to the capital injection by Hainan Jingye, all significant resolutions of Guangzhou Pusheng, shall be approved by Hainan Jingye, hence the Group has no control, but has significant influence over Guangzhou Pusheng, and accordingly, Guangzhou Pusheng is accounted for as an associate of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	RMB'000
Net asset derecognised:	
Properties under development	81,497
Prepayments, other receivables and other assets	50,043
Cash and cash equivalents	451
Trade payables	(1)
Other payables and accruals	(130,311)
Net asset value derecognised	1,679

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Guangzhou Pusheng is as follows:

	RMB'000
Cash and cash equivalents derecognised	(451)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Guangzhou Pusheng	(451)

[#] The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese name of those companies, as no English names have been registered.

35. Notes to the Consolidated Statement of Cash Flows (Continued)

(a) Derecognition of subsidiaries (Continued)

- (ix) During the year ended 31 December 2018, the Group entered into the shareholder agreement with Guangzhou Fangyuan Real Estate Development Limited ("Guangzhou Fangyuan")#. According to the agreement, all significant resolutions of Beijing Zunli Business Service Limited ("Beijing Zunli")#, a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Fangyuan unanimously, hence the Group has no control over Beijing Zunli, and accordingly, Beijing Zunli is accounted for as a joint venture of the Group thereafter.

Details of the net asset derecognised as at the date of derecognition and the financial impacts were summarised below:

	Notes	RMB'000
Net asset derecognised:		
Property, plant and equipment	13	9
Properties under development		4,548,563
Prepayments, other receivables and other assets		2,492,266
Cash and cash equivalents		2,428
Trade payables		(22)
Other payables and accruals		(4,761,159)
Tax payables		(270)
Interest-bearing bank and other borrowings	35(c)	(2,280,000)
Net asset value derecognised		1,815

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Beijing Zunli is as follows:

	RMB'000
Cash and cash equivalents derecognised	(2,428)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Beijing Zunli	(2,428)

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese name of those companies, as no English names have been registered.

(b) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of approximately RMB146,789,000 and approximately RMB146,789,000, respectively, in respect of lease arrangements for buildings and investment properties (2018: Nil).

35. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Changes in liabilities arising from financing activities

	Notes	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Other payables and accruals RMB'000
At 31 December 2018		77,782,247	-	2,019,701
Effect of adoption of HKFRS 16		(318,538)	2,097,472	-
At 1 January 2019 (restated)		77,463,709	2,097,472	2,019,701
Changes from financing cash flows		15,144,709	(118,490)	(1,767,425)
New leases		-	146,789	-
2018 final dividends payable	11, 29	-	-	983,962
2019 interim dividends payable	11, 29	-	-	1,020,309
Shares issued as scrip dividend	29	-	-	(5,326)
Interest expense	7	26,120	128,262	6,183,642
Interest paid classified as operating cash flows		-	(128,262)	(6,123,540)
Foreign exchange movement		763,143	-	-
Acquisition of subsidiaries	33	651,340	-	-
Due to joint ventures		(3,712,589)	-	-
Derecognition of subsidiaries	35(a)	(4,758,882)	-	-
At 31 December 2019		85,577,550	2,125,771	2,311,323

	Notes	Interest-bearing bank and other borrowings RMB'000	Other payables and accruals RMB'000
At 1 January 2018		59,645,171	1,316,789
Changes from financing cash flows		19,201,793	(1,156,333)
2017 final dividends payable	11, 29	-	978,098
2018 interim dividends payable	11, 29	-	788,789
Shares issued as scrip dividend	29	-	(127,145)
Financial lease payable	26(c)	318,538	-
Interest expense	7	18,681	4,405,530
Interest paid classified as operating cash flows		-	(4,186,027)
Foreign exchange movement		800,304	-
Acquisition of a subsidiary	33	610,000	-
Derecognition of subsidiaries	35(a)	(2,812,240)	-
At 31 December 2018		77,782,247	2,019,701

35. Notes to the Consolidated Statement of Cash Flows (Continued)

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	68,847
Within financing activities	246,752
	315,599

36. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	2019 RMB'000	2018 RMB'000
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties	(a)	16,765,473	8,117,109
Guarantees given to banks in connection with bank loans granted to joint ventures and associates	(b)	29,362,515	15,736,315
		46,127,988	23,853,424

Notes:

- (a) As at 31 December 2019 and 2018, the Group provided guarantees to certain banks in respect of mortgages granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2019 and 2018 for the guarantees.

- (b) As at 31 December 2019, the banking loans guaranteed by the Group to joint ventures and associates were utilised to the extent of approximately RMB29,362,515,000 (2018: approximately RMB15,736,315,000).

Notes to Financial Statements

31 December 2019

37. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking and other borrowing facilities granted to the Group:

	Notes	2019 RMB'000	2018 RMB'000
Property, plant and equipment	13	2,743,081	2,796,547
Investment properties	14	13,506,919	6,409,301
Land use rights	15	432,122	311,310
Properties under development	18	13,514,324	17,689,861
Completed properties held for sale	19	3,667,565	1,029,118
Time deposits	23	756,710	1,016,680
		34,620,721	29,252,817

- (b) As at 31 December 2019 and 2018, the equity interests of certain subsidiaries of the Group were pledged to certain banks for the loans granted to the Group.
- (c) As at 31 December 2019 and 2018, the senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their equity interests.
- (d) As at 31 December 2019, the domestic corporate bonds of approximately RMB16,433,948,000 (2018: approximately RMB15,893,503,000) were guaranteed by the Company.

38. Commitments

- (a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	371,999	580,847
Properties being developed by the Group for sale	10,535,392	10,045,197
Investment properties	530,916	7,366
	11,438,307	10,633,410

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for	7,948,847	6,636,605

38. Commitments *(Continued)*

- (b) The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 16 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2019 and 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2019 RMB'000	2018 RMB'000
Within one year	481,071	412,349
After one year but within two years	325,605	294,783
After two years but within three years	218,751	191,538
After three years but within four years	124,181	127,446
After four years but within five years	72,465	69,578
After five years	183,057	176,512
	1,405,130	1,272,206

39. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

- (a) During the year ended 31 December 2019, the Group provided project management services to certain joint ventures and associates of the Group for a total cash consideration of approximately RMB366,105,000 (2018: approximately RMB213,520,000), which was recognised as other income of the Group. The management fee income was determined at rates mutually agreed between the Group and the joint ventures and associates.
- (b) During the year ended 31 December 2019, the Group provided advances to certain joint ventures and associates at the interest rates of 4.4% to 12.0% (2018: 4.4% to 12.0%) per annum. The interest income of approximately RMB247,885,000 (2018: approximately RMB139,252,000), which was recognised as other income of the Group, was determined at rates mutually agreed between the Group and the joint ventures and associates.
- (c) During the year ended 31 December 2019, the Group leased some properties to related companies, of which an executive director of the Company is the ultimate beneficial owner, for a total cash consideration of approximately RMB9,789,000 (2018: approximately RMB156,000), which was recognised as rental income and management fee income of the Group. The income was determined at rates mutually agreed between the Group and the executive director.
- (d) During the year ended 31 December 2018, Guangzhou Hejing (the "Seller"), a wholly-owned subsidiary of the Company, entered into a property sale and purchase agreement with Mr. Kong Jiantao, an executive Director and the chief executive officer of the Company, and Ms. Zhang Xin, the spouse of Mr. Kong Jiantao (collectively the "Purchasers"), pursuant to which the Purchasers purchased a residential apartment within a residential property development project in Guangzhou, namely the Cosmos, developed by the Guangzhou Hejing) at a consideration (including value added tax) of approximately RMB38,116,000. The Group has recognised revenue of approximately RMB36,301,000 as the sale of properties.

39. Related Party Transactions *(Continued)*

(e) Other transactions with related parties

Details of guarantees given by the Group to banks in connection with bank loans granted to joint ventures and associates are included in note 36 to the financial statements.

The related party transaction in respect of item (d) above also constitutes connected transaction as defined in Chapter 14A of the Listing Rules.

The related party transaction in respect of item (c) above also constitutes continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(f) Outstanding balances with related parties

Details of the Group's balances with its associates and joint ventures are included in notes 16 and 17 respectively to the financial statements.

(g) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	33,226	35,564
Post-employment benefits	630	728
Share-based compensation	6,690	10,584
Total compensation paid to key management personnel	40,546	46,876

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

40. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets – Financial assets at amortised cost

	Notes	2019 RMB'000	2018 RMB'000
Trade receivables	20	2,166,759	957,665
Financial assets included in prepayments, other receivables and other assets	21	4,373,631	4,031,855
Due from a joint venture	17	30,062	30,069
Restricted cash	23	5,356,141	4,099,329
Cash and cash equivalents	23	51,377,864	52,577,643
		63,304,457	61,696,561

Financial liabilities – Financial liabilities at amortised cost

	Notes	2019 RMB'000	2018 RMB'000
Trade and bills payables	24	9,072,301	4,077,063
Lease liabilities	2.2	2,125,771	–
Financial liabilities included in other payables and accruals	25	11,308,048	10,067,536
Due to joint ventures	17	37,742,306	39,294,914
Due to associates	16	1,345,495	592,204
Interest-bearing bank and other borrowings	26	85,577,550	77,782,247
		147,171,471	131,813,964

41. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings	85,577,550	77,782,247	86,160,688	76,707,143

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, lease liabilities, financial liabilities included in other payables and accruals, amounts due from/to joint ventures and due to associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the management of the Group. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management of the Group. The valuation process and results are discussed with the management of the Group twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption were used to estimate the fair values:

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was assessed to be insignificant.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2019 and 2018.

During the years ended 31 December 2019 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

41. Fair Value and Fair Value Hierarchy of Financial Instruments

(continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	-	86,160,688	-	86,160,688

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	-	76,707,143	-	76,707,143

42. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, other receivables and other assets, and amounts due from a joint venture. The financial liabilities of the Group mainly include trade and bills payables, lease liabilities, other payables and accruals, interest-bearing bank and other borrowings, amounts due to joint ventures and amounts due to associates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management and focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The Group's exposure to these risks is kept to a minimum. Management closely monitors the risk exposure and will consider using derivatives and other instruments to hedge significant risk exposure should the need arise. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in Mainland China and Hong Kong, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

42. Financial Risk Management Objectives and Policies *(continued)***Interest rate risk**

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
RMB	200	(423,249)
Hong Kong dollar	200	(59,857)
United States dollar	200	(41,716)
RMB	(200)	423,249
Hong Kong dollar	(200)	59,857
United States dollar	(200)	41,716
<hr/>		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
<hr/>		
2018		
RMB	200	(390,516)
Hong Kong dollar	200	(58,650)
United States dollar	200	(34,519)
RMB	(200)	390,516
Hong Kong dollar	(200)	58,650
United States dollar	(200)	34,519

42. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk

The Group's most businesses are mainly located in Mainland China and the transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's foreign currency exposures mainly arise from interest-bearing bank and other borrowings and bank balances denominated in currencies other than the units' functional currencies as at 31 December 2019 and 31 December 2018. The Group considers the foreign currency risk between Hong Kong dollar and United States dollar is not material as the exchange rate between these two currencies is pegged.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
2019			
If RMB weakens against Hong Kong dollar	(5)	N/A	418,083
If RMB strengthens against Hong Kong dollar	5	N/A	(418,083)
If RMB weakens against United States dollar	N/A	(5)	13,555
If RMB strengthens against United States dollar	N/A	5	(13,555)
	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
2018			
If RMB weakens against Hong Kong dollar	(5)	N/A	563,786
If RMB strengthens against Hong Kong dollar	5	N/A	(563,786)
If RMB weakens against United States dollar	N/A	(5)	9,051
If RMB strengthens against United States dollar	N/A	5	(9,051)

42. Financial Risk Management Objectives and Policies *(continued)***Credit Risk**

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

2019	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	2,166,759	2,166,759
Financial assets included in prepayments, other receivables and other assets*					
— Normal**	3,991,696	-	-	381,935	4,373,631
Due from a joint venture	30,062	-	-	-	30,062
Restricted bank balances					
— Not yet past due	5,356,141	-	-	-	5,356,141
Cash and cash equivalents					
— Not yet past due	51,377,864	-	-	-	51,377,864
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties					
— Not yet past due	16,765,473	-	-	-	16,765,473
Guarantees given to banks in connection with bank loans granted to joint ventures and associates					
— Not yet past due	29,362,515	-	-	-	29,362,515
	106,883,751	-	-	2,548,694	109,432,445

42. Financial Risk Management Objectives and Policies *(continued)***Credit Risk** *(continued)*

2018	12-month ECLs	Lifetime ECLs			Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	-	-	-		957,665	957,665
Financial assets included in prepayments, other receivables and other assets*						
— Normal**	3,902,394	-	-		129,461	4,031,855
Due from a joint venture	30,069	-	-		-	30,069
Restricted cash						
— Not yet past due	4,099,329	-	-		-	4,099,329
Cash and cash equivalents						
— Not yet past due	52,577,643	-	-		-	52,577,643
Guarantees given to banks in connection with mortgages granted to certain purchasers of the Group's properties						
— Not yet past due	8,117,109	-	-		-	8,117,109
Guarantees given to banks in connection with bank loans granted to joint ventures and associates						
— Not yet past due	15,736,315	-	-		-	15,736,315
	84,462,859	-	-		1,087,126	85,549,985

* For trade receivables and contract assets included in prepayments, other receivables and other assets, to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 and 21 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

42. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk

The management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generated from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expects that the Group's net cash flows from operating activities and additional bank and other borrowings will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be any significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	-	2,907,134	26,098,730	60,493,797	10,860,468	100,360,129
Lease liabilities	-	62,393	194,016	886,218	1,766,368	2,908,995
Trade and bills payables	9,072,301	-	-	-	-	9,072,301
Other payables and accruals	11,308,048	-	-	-	-	11,308,048
Due to joint ventures	37,742,306	-	-	-	-	37,742,306
Due to associates	1,345,495	-	-	-	-	1,345,495
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	16,765,473	-	-	-	-	16,765,473
Guarantee given to banks in connection with bank loans granted to joint ventures and associates	29,362,515	-	-	-	-	29,362,515
	105,596,138	2,969,527	26,292,746	61,380,015	12,626,836	208,865,262

42. Financial Risk Management Objectives and Policies *(continued)***Liquidity risk** *(continued)*

	2018					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	8,246,940	13,642,093	57,866,528	11,147,142	90,902,703
Trade and bills payables	4,077,063	–	–	–	–	4,077,063
Other payables and accruals	10,067,536	–	–	–	–	10,067,536
Due to joint ventures	39,294,914	–	–	–	–	39,294,914
Due to associates	592,204	–	–	–	–	592,204
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	8,117,109	–	–	–	–	8,117,109
Guarantee given to banks in connection with bank loans granted to joint ventures and associates	15,736,315	–	–	–	–	15,736,315
	77,885,141	8,246,940	13,642,093	57,866,528	11,147,142	168,787,844

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

42. Financial Risk Management Objectives and Policies *(continued)*

Capital management *(continued)*

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank and other borrowings net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Net borrowings	28,843,545	21,105,275
Total equity	38,242,591	31,772,009
Gearing ratio	75.4%	66.4%

43. Events After the Reporting Period

- (a) On 13 January 2020, the Company issued 7.4% senior notes with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB2,077,890,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 13 January 2027. The senior notes carry interest at a rate of 7.4% per annum, which is payable semi-annually in arrears on 13 January and 13 July of each year commencing on 13 July 2020. For further details on the senior notes, please refer to the related announcements of the Company dated 7 January 2020 and 13 January 2020.
- (b) On 17 March 2020, Guangzhou Hejing, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,000,000,000.
- (c) The unexpected outbreak of coronavirus (COVID-19) has produced an adverse impact on the economy, including the real estate sector, in Mainland China in 2020. It is expected that the performance of the Group's hotel operations and the commercial leasing in the first half of 2020 will be negatively affected. Besides, the pandemic also created uncertainties on the Group's property development operation.

Management of the Group will actively take measures to control the operating and labor costs of its hotels, pay attention to cash flow management, integrate external resources and adjust business plans to make full preparation for business recovery after the pandemic.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

44. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	43,417	38,545
Interests in subsidiaries	25,475,332	21,743,369
Interests in joint ventures	10,925,047	10,238,384
Total non-current assets	36,443,796	32,020,298
CURRENT ASSETS		
Prepayments, other receivables and other assets	229,678	1,306,225
Due from subsidiaries	6,653,268	4,984,765
Cash and cash equivalents	4,384,582	2,862,469
Total current assets	11,267,528	9,153,459
CURRENT LIABILITIES		
Trade payables	14,025	–
Other payables and accruals	1,852,122	1,541,691
Due to joint ventures	3,595,348	214,786
Interest-bearing bank and other borrowings	7,964,107	8,546,442
Total current liabilities	13,425,602	10,302,919
NET CURRENT LIABILITIES	(2,158,074)	(1,149,460)
TOTAL ASSETS LESS CURRENT LIABILITIES	34,285,722	30,870,838
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	33,799,848	28,779,543
Other payables and accruals	152,992	177,217
Total non-current liabilities	33,952,840	28,956,760
NET ASSETS	332,882	1,914,078
EQUITY		
Share capital	303,972	303,784
Reserves (note)	28,910	1,610,294
TOTAL EQUITY	332,882	1,914,078

Notes to Financial Statements

31 December 2019

44. Statement of Financial Position of the Company (continued)

Note:

A summary to the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018		5,295,047	308,006	(828,785)	-	(821,811)	3,952,457
Final 2017 dividend declared	29	(978,098)	-	-	-	-	(978,098)
Share-based compensation expenses		-	-	-	28,776	-	28,776
Shares issued as scrip dividend during the year	29	125,716	-	-	-	-	125,716
Interim 2018 dividend		(788,789)	-	-	-	-	(788,789)
Loss for the year		-	-	-	-	(452,374)	(452,374)
Exchange differences on translation into presentation currency		-	-	(277,394)	-	-	(277,394)
At 31 December 2018		3,653,876	308,006	(1,106,179)	28,776	(1,274,185)	1,610,294
At 31 December 2018 and 1 January 2019		3,653,876	308,006	(1,106,179)	28,776	(1,274,185)	1,610,294
Final 2018 dividend declared	29	(983,962)	-	-	-	-	(983,962)
Share-based compensation expenses	30	-	-	-	21,234	-	21,234
Shares issued as scrip dividend during the year	29	5,263	-	-	-	-	5,263
Vested awarded shares transferred to employees	29	15,310	-	-	(15,435)	-	(125)
Interim 2019 dividend	29	(1,020,309)	-	-	-	-	(1,020,309)
Profit for the year		-	-	-	-	578,898	578,898
Exchange differences on translation into presentation currency		-	-	(182,383)	-	-	(182,383)
At 31 December 2019		1,670,178	308,006	(1,288,562)	34,575	(695,287)	28,910

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

REGISTERED OFFICES

Registered Office

Place of Business in Hong Kong

KWG Group Holdings Limited
(合景泰富集團控股有限公司)
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

KWG Group Holdings Limited
(合景泰富集團控股有限公司)
Units 8503-05A, Level 85
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

China Construction Bank (Asia) Corporation Limited
28/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

SHARED SECURITY AGENT

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

LEGAL ADVISORS TO US

As to U.S. and Hong Kong Law

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central, Hong Kong

As to BVI Law

Conyers Dill & Pearman
29th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

As to Cayman Islands Law

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

As to PRC Law

Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District, Beijing
100025 China

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to U.S. Law

Shearman & Sterling
21/F, Gloucester Tower, The Landmark
15 Queen's Road
Central, Hong Kong

As to PRC Law

Commerce & Finance Law Offices
6F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District, Beijing
100022 China

INDEPENDENT ACCOUNTANTS

Ernst & Young
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong



合景泰富集團
KWG GROUP HOLDINGS