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REDCO PROPERTIES GROUP LIMITED

力高地產集團有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：1622)

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司證券上市規則第 13.10B 條刊發。

茲提述力高地產集團有限公司日期為二零一九年四月二十四日有關發行二零二一年到期的 180,000,000 美元 9.875% 優先票據(「票據」)的公告(「該公告」)。除文義另有指定外，本公告所用詞彙與該公告所用者具有相同涵義。

請參閱隨附有關票據的發售備忘錄(「發售備忘錄」)，發售備忘錄亦於新加坡證券交易所網站登載。

於聯交所網站刊載該發售備忘錄僅為促使向香港投資者發佈同步資訊，並遵守上市規則第 13.10B 條，概無任何其他目的。

該發售備忘錄並不構成在任何司法權區向公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦非邀請公眾提出認購或購買任何證券的要約，且不在邀請公眾提出認購或購買任何證券的要約。

該發售備忘錄不應被視為誘導認購或購買本公司任何證券，亦不旨在進行該等誘導。投資決策不應根據該發售備忘錄所載的資料而作出。

代表董事會
力高地產集團有限公司
主席
黃若虹

香港，二零一九年五月七日

於本公告日期，執行董事為黃若虹先生、黃若青先生、唐承勇先生及王衛鋒先生；獨立非執行董事為黃友嘉博士 *GBS*，*BBS* 太平紳士、周安達源先生 *SBS*，*BBS*、葉棣謙先生及周光暉先生。

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS OUTSIDE THE U.S.

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

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

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

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

The attached document is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EEA").

Prohibition of sales to EEA retail investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), as amended or superseded, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The communication of 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 within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the securities described in 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.

MiFID II product governance/Professional investors and ECPs only target market — Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration such manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining such manufacturer's target market assessment) and determining appropriate distribution channels.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Credit Suisse (Hong Kong) Limited, UBS AG Hong Kong Branch, Orient Securities (Hong Kong) Limited, Haitong International Securities Company Limited and The Bank of East Asia, Limited as Joint Bookrunners and Joint Lead Managers, or any person who controls any of them or any of their director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you.

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



REDCO PROPERTIES GROUP LIMITED

力高地產集團有限公司

(incorporated in the Cayman Islands with limited liability)

US\$180,000,000
9.875% Senior Notes due 2021
Issue Price: 99.337%

Our 9.875% Senior Notes due 2021 (the “Notes”) will bear interest from May 2, 2019 at 9.875% *per annum* payable in arrears on May 2 and November 2 of each year, commencing November 2, 2019. The Notes will mature on May 2, 2021.

The Notes are senior obligations of Redco Properties Group Limited (力高地產集團有限公司) (the “Company”), guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries organized outside of the PRC.” 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 us 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.

At any time and from time to time prior to May 2, 2021, the Company may redeem up to 35% of the aggregate principal amount of the Notes, at a redemption price of 109.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, in each case, using the net cash proceeds from sales of certain kinds of capital stock. In addition, prior to May 2, 2021, the Company may redeem the Notes at any time, in whole but not in part, at a price equal to 100% of the principal amount of such Notes plus (i) accrued and unpaid interest, if any, to (but not including) the redemption date and (ii) a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes (the “Indenture”)), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (i) senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes, (ii) at least *pari passu* in right of payment with the Existing *Pari Passu* Secured Indebtedness and all other unsecured and unsubordinated indebtedness (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law), (iii) effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral), and (iv) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any Collateral. See the section entitled “Risk Factors—Risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees and the Collateral.”

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

Investing in the Notes involves risks. See the section entitled “Risk Factors”.

Application has been made to the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated March 14, 2018 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Bonds to be reported to the NDRC within 10 working days after the issue date of the Notes.

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

The Notes are expected to be rated B by Standard & Poor’s Ratings Services (Standard & Poor’s) and B by Fitch Ratings Ltd (“Fitch”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Investors should evaluate the ratings independently of other ratings (if any) of the Notes or other securities of the Company.

It is expected that the delivery of the Notes will be made on or about May 2, 2019 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Credit Suisse

UBS

Joint Bookrunners and Joint Lead Managers

Orient Securities (Hong Kong)

Haitong International

The Bank of East Asia, Limited

The date of this offering memorandum is April 23, 2019

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

The following offering memorandum is not a prospectus for the purposes of the European Union’s Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the “EEA”).

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 (“MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, “the Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

MIFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the securities (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

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, ANY JOINT LEAD MANAGER, APPOINTED AND ACTING IN ITS CAPACITY, AS STABILIZATION MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, 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 STABILIZING MANAGER, 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.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

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 or given by Credit Suisse (Hong Kong) Limited, UBS AG Hong Kong Branch, Orient Securities (Hong Kong) Limited, Haitong International Securities Company Limited and The Bank of East Asia, Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), Citibank, N.A., London Branch (the “Paying Agent,” the “Transfer Agent” and the “Registrar,” and collectively, the “Agents”) or any of their respective affiliates or advisors as to the accuracy, completeness or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation or warranty, whether as to the past or the future. None of the Initial Purchasers, the Trustee or the Agents has independently verified any of the information contained in this offering memorandum or can give any assurance that this information is accurate, truthful or complete.

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 or the Agents or any person affiliated with the Initial Purchasers, the Trustee or 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 (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 or 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 (the "SEC"), 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 securities, including the Notes, 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 securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this offering memorandum, see the section entitled "Transfer Restrictions" below.

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

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY 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 Redco Properties Group Limited (力高地產集團有限公司) itself and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and the PRC and property industry statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or our or their respective directors and advisors, and neither we, the Initial Purchasers nor our respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the 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\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”); and all references to “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China (“China” or 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. dollar amounts were made at the rate of RMB6.8755 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018, and all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK\$7.8305 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate, or at all. All amounts converted into U.S. dollars contained in this offering memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see the section entitled “Exchange Rate Information.”

References to “PRC” and “China,” in the context of statistical information and description of laws and regulations in 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” or “State” 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 “HKFRS” are to Hong Kong Financial Reporting Standards, which include Hong Kong Accounting Standards and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants.

Our financial statements for the years ended December 31, 2016, 2017 and 2018 are prepared in accordance with HKFRS which differ in certain respects from generally accepted accounting principles (“GAAP”) in certain other jurisdictions. Unless the context otherwise requires, references to “2016,” “2017” and “2018” in this offering memorandum are to our financial years ended December 31, 2016, 2017 and 2018, respectively.

References to the “2014 Notes” are to the Company’s 13.75% senior notes due 2019. We redeemed the 2014 Notes in full on August 9, 2017 and Citicorp International Limited, as trustee with respect to the 2014 Notes, has been removed as a secured party under the Intercreditor Agreement.

References to the “2017 Notes” are to the Company’s 7.0% senior notes with an aggregate principal amount of US\$250 million, which have become matured and been fully repaid on November 14, 2018.

References to “August 1 2018 Notes” are to the Company’s 8.0% senior notes due July 31, 2019 issued on August 1, 2018.

References to “August 29 2018 Notes” are to the Company’s 11.0% senior notes due 2020 issued on August 29, 2018 with an aggregate principal amount of US\$200 million (the “Original August 29 2018 Notes”) and further issued on January 4, 2019 with an aggregate principal amount of US\$110.4 million (the “Additional August 29 2018 Notes,” which are consolidated and formed a single series with the Original August 29 2018 Notes).

References to “average selling price” or “ASP” are to the average selling price on a gross basis, unless otherwise stated.

References to “Board of Directors” or “Board” are to the board of Directors of the Company.

References to “CAGR” are to the compound annual growth rate.

References to “commercial property(ies)” are to the property(ies) designated for commercial use.

References to “completion certificate” are to the construction works completion inspection certificate (房屋建築工程竣工驗收備案表) issued by local urban construction bureaux or equivalent authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection.

References to “construction commencement permit” are to the construction works commencement permit (建築工程施工許可證) issued by local construction bureaux or equivalent authorities in China with respect to commencement of construction works.

References to “construction land planning permit” are to the construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaux or equivalent authorities in China with respect to planning of construction land.

References to “construction works planning permit” are to the construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaux or equivalent authorities in China with respect to planning of construction works.

References to “Director(s)” are to the director(s) of the Company.

References to “February 2018 Notes” are to the Company’s 6.375% senior notes due 2019, which have been fully repaid as of February 27, 2019.

References to “GDP” are to the gross domestic product.

References to “GFA” are to the gross floor area; references to “leasable GFA” are to the GFA attributable to the land parcel for leasing and investment appreciation purposes; references to “planned GFA” are to the GFA attributable to the land parcel for future development based on the relevant land grant contract and/or public tender, listing-or-sale of auction confirmation letter; references to “saleable GFA” are to the GFA attributable to the land parcel for sale minus the GFA attributable to car parks, non-saleable areas and public areas; references to “total GFA” are to the GFA attributable to the above-ground and underground saleable and/or leasable area contained within the external walls of any building at each floor level and the whole thickness of the external walls of the relevant project together with other non-leasable and non-saleable area and it generally includes mechanical and electrical services rooms, refuse rooms, water tanks, car parks, elevators and staircases. The figures for GFA are based on figures provided in or estimates based on relevant governmental documents, such as property ownership certificates, construction works planning permits, pre-sale permits, construction land planning permits, completion certificates, land use rights certificates or other relevant documents and includes saleable areas, non-saleable areas, car parks and public areas.

References to “January 2019 Notes” are to the Company’s 13.5% senior notes due January 21, 2020 issued on January 22, 2019.

References to “land bank,” “development projects,” “property projects” or “projects” refer to our property projects with land for which we have obtained land-use rights and property projects for which we have not obtained land-use rights but have entered into the land grant contracts or received successful tender auction confirmations.

References to “land grant contract” are to the state-owned land use right grant contract (國有土地使用權出讓合同) between a land user and the relevant PRC governmental land administrative authorities.

References to “land use rights certificate” are to the state-owned land use rights certificate (國有土地使用證), a certificate (or certificates, as the case may be) of the right of a party to use a parcel of land.

References to “LAT” are to the land appreciation tax, as defined in the PRC Provisional Regulations 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.

References to “PBOC” are to the People’s Bank of China (中國人民銀行), the Central Bank of the PRC.

References to “Circular No. 75” are to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Vehicles (國家外匯管理局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) issued by SAFE on October 21, 2005 and became effective on November 1, 2005.

References to “Circular No. 37” are to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Onshore and Offshore Financing, Investment and Return Investment via Overseas Special Purpose Vehicles (國家外匯管理局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) issued by SAFE on July 4, 2014 and became effective July 4, 2014.

References to “EIT” are to the PRC Enterprise Income Tax.

References to “MLR” are to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部).

References to “MOF” are to the Ministry of Finance of the PRC (中華人民共和國財政部).

References to “MOFCOM” are to the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate to the context.

References to “MOHURD” are to the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) or its predecessor, the Ministry of Construction of the PRC (中華人民共和國建設部).

References to “NDRC” are to the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會).

References to “NPC” are to the National People’s Congress or its standing committee as the context may require (全國人民代表大會或其常務委員會).

References to “SAFE” are to the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局) or its local branches as the case may be.

References to “SAIC” are to the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理總局).

References to “SAT” are to the State Administration of Taxation of the PRC (中國國家稅務總局).

References to “Original Notes” are to the Company’s 11.0% senior notes due August 29, 2020.

References to “People’s Congress” are to the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會).

References to “plot ratio” are to the ratio of the GFA (excluding floor area below ground) of all buildings to their site area.

References to “pre-sale permit” are to the commodity property pre-sale permit (商品房預售許可證) issued by a local housing and building administrative bureau or an equivalent authority with respect to pre-sale of the relevant properties.

References to “property ownership certificate” are to the property ownership certificate (房屋所有權證) issued by relevant PRC government authorities with respect to the ownership rights of buildings.

References to “public tender,” “auction,” or “listing-for-sale” are to the public tender, auction or listing at a land exchange administered by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the PRC government.

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.10, in our share capital.

References to “sq.km.” are to square kilometers.

References to “sq.m.” are to square meters.

References to “Mr. Wong” are to Mr. Wong Yeuk Hung, our chairman, executive director and our controlling shareholder.

The site area information for an entire project is based on the relevant land use rights certificates, land grant contracts, tender documents, or other relevant agreements, depending on which documents are available. If more than one documents is available, such information is based on the most recent document available.

In this offering memorandum, unless the context otherwise requires, all references to “Affiliate” are to person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”), as amended (the “Listing Rules”), which includes: (i) a “subsidiary undertaking” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director of our Company, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

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 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, and pre-sale, pricing and volume of our property development projects;
- significant delay in obtaining the various permits, proper legal titles or approvals for our properties 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 interest 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 guarantee 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.

ENFORCEMENT OF CIVIL LIABILITIES

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

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

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

We have been advised by our Cayman Islands legal advisors, Conyers Dill & Pearman, that (i) judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state may be difficult to enforce against us in the courts of the Cayman Islands and (ii) in original actions brought in the Cayman Islands, the Cayman Islands courts may not impose liabilities against us, our directors or officers or any Subsidiary Guarantor or their directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state, in each of (i) and (ii) on the grounds that such provisions may be held by the courts of the Cayman Islands to be penal, revenue or other public laws of a foreign state. Our counsel as to Cayman Islands laws further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an *in personam* judgment for non-monetary relief, and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

Conyers Dill & Pearman, our counsel as to British Virgin Islands laws, has advised us that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands; and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

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

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- (c) is contrary to public policy or natural justice;
- (d) is based on foreign penal, revenue or other public law; or
- (e) falls within Section 3(1) of the Foreign Judgment (Restriction on Recognition and Enforcement) Ordinance.

Pursuant to the Civil Procedure Law of the PRC, the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region (最高人民法院、香港特別行政區政府關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排), the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) and the Arrangements of the Supreme People's Court on Mutual Recognition and Execution of Arbitral Awards between Mainland and Hong Kong Special Administrative Region (關於內地與香港特別行政區相互執行仲裁裁決的安排), subject to the requirements on the recognition and enforcement of judgments or arbitration awards provided therein, a final decision of payment with enforcement made by a court of the Hong Kong in a civil or commercial case under a written jurisdiction agreement or an arbitration award made in Hong Kong may be recognized and enforceable by the competent PRC courts. However, we have also been advised by our PRC legal advisors, JunHe LLP, that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in the United States and there is uncertainty as to whether the courts of the PRC would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective 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, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the U.S. federal or state securities laws.

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 an integrated residential and commercial property developer primarily focusing on residential property development in the PRC. We have successfully established our presence in a number of key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region, including Shenzhen, Zhongshan, Shanghai, Tianjin, Hefei, Nanchang, Jinan, Yantai and Xianyang.

We believe that we have successfully established the “Redco” brand in the cities where we have built our presence. In 2018, we were recognized as “2018 PRC Investment Value Real Estate Enterprise” (2018中國年度投資價值地產企業) by Guandian.cn (觀點地產新媒體). In 2017, we were recognized as “Top 100 Comprehensive Strength Listed Real Estate Enterprise of China for 2017” (2017年中國房地產上市公司綜合實力100強) by China Real Estate Association (中國房地產業協會). In 2016, the Group was recognized as “the Most Valuable Listed Real Estate Enterprise of China for 2016” (2016 中國最具價值地產上市企業) by Guandian.cn(觀點地產新媒體). In 2015, we were recognized as “2015 Top 10 Hong Kong Listed Domestic Developers Worthy of Investment” (2015中國大陸在港上市房地產公司投資價值TOP 10) by the Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院). In addition, our property projects have also received numerous awards from different organizations. Our Company has been selected as a constituent of the “Hang Seng Composite SmallCap Index of the Hang Seng Composite Index since September 4, 2017. We believe that becoming a constituent of the Hang Seng Family of Indexes represents the recognition of our business performance, stock liquidity and growth prospect by the market.

Since we commenced property development operations in 1995, we have successfully executed our multi-regional strategy and demonstrated a proven track record of success by developing in strategically selected cities that we believe possess high growth potential across the PRC. Subsequent to our initial success in Quanzhou, Fujian Province, we deliberately expanded and quickly replicated our success in strategically targeted key economic cities, including Shenzhen, Zhongshan, Shanghai, Tianjin, Hefei, Nanchang, Jinan, Yantai and Xianyang. We also established presence in Australia by jointly developing a residential community in Sydney with a recognized local developer. During the three years ended December 31, 2016, 2017 and 2018, we recognized revenue from property development and investment projects covering certain key economic cities in China. As of December 31, 2018, we had 56 property development and investment projects with an aggregate GFA of approximately 10.0 million sq.m.



● Cities with property development projects from which we recognized revenue during 2016, 2017 and 2018

- **The Greater Western Taiwan Straits Economic Zone**

In the Greater Western Taiwan Straits Economic Zone, we have strategically targeted the key economic cities of Nanchang and Quanzhou. Nanchang is the provincial capital of Jiangxi Province. As of December 31, 2018, we had a land bank comprising 19 property development and investment projects in the Greater Western Taiwan Straits Economic Zone with an aggregate GFA of 2,730,314 sq.m.

- **The Bohai Economic Rim**

In the Bohai Economic Rim, we have property development projects in Tianjin, Jinan and Yantai. Tianjin is one of the four centrally-administered municipalities in the PRC, Jinan is the provincial capital of Shandong Province and Yantai’s nominal GDP ranked third in Shandong Province in 2016. As of December 31, 2018, we had a land bank comprising 15 property development and investment projects in the Bohai Economic Rim with an aggregate GFA of 3,300,196 sq.m.

- **The Central and Western Regions**

In the Central and Western Regions, we have property development projects in Hefei, Fuyang, Xianyang, Nantong, Suzhou, Lianyungang, Ningbo, and Wuhan. Hefei is the provincial capital of Anhui Province. Under the government initiative, “Integration of Xi’an and Xianyang”, favorable governmental policies are being implemented to allow Xi’an and Xianyang to develop into an integrated central commercial hub in Western China. In 2016, the combined nominal GDP of Xi’an and Xianyang ranked first in Shaanxi Province. As of December 31, 2018, we had a land bank comprising 17 property development projects in the Central and Western Regions with an aggregate GFA of approximately 3,439,747 sq.m.

- **The Pearl River Delta Region**

In the Pearl River Delta Region, we have property development projects in Shenzhen, Foshan and Zhongshan. Shenzhen is a first-tier city in China, and Foshan and Zhongshan are fast-growing cities in East Guangdong. In 2016, Shenzhen's nominal GDP ranked fourth among all cities in China. In 2017 and 2018, Shenzhen's nominal GDP increased from RMB2.2 trillion to RMB2.5 trillion, ranking the third among all cities in China. As of December 31, 2018, we had a land bank comprising four property development projects in the Pearl River Delta Region with an aggregate GFA of 469,577 sq.m.

- **Others**

In addition to the four major regions above, we have also established our presence, Sydney, the economic and cultural center of Australia. As of December 31, 2018, we had a land bank comprising one property development projects in Sydney with an aggregate GFA of 56,579.0 sq.m.

While we continue to strengthen our market position in strategically targeted key economic cities in these regions, we intend to leverage our experience and expertise to expand our operations and replicate our success in other cities with high GDP and population growth potential where we do not have any presence currently. We believe that our strategic focus on the selected key economic cities with high growth potential will enable us to benefit from the sustained economic growth and accelerating urbanization in these cities in the coming years.

We have established diversified land acquisition strategies that complement each other, including acquisitions from third parties and listings-for-sale. We have also employed other land acquisition strategies including: (i) incorporating cultural concepts to develop properties that meet the needs of the local communities; (ii) early involvement in areas encouraged by the local governments; (iii) leveraging on our track record in developing quality property projects to acquire additional land in the same geographical area; (iv) acquisition of local property developers that have a land reserve suitable for our development strategy; and (v) incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of the local communities.

For example, we successfully incorporated the cultural concept of the Mazu goddess (媽祖) to acquire land in Tianjin, a coastal city in the Bohai Economic Rim. Through Mr. Wong's strong ties with various Mazu cultural organizations, we gained deep insights into the importance of Mazu culture in Tianjin. Leveraging on such knowledge and in line with the Tianjin local government's desire to facilitate Mazu culture and economic development in Taiwan and the PRC, we formed a joint venture company with the largest Mazu worshipping temple in Taiwan to acquire our first parcels of land in coastal Tianjin for our Sunshine Coast and Land Lot Nos. A1 and A2 projects.

Our Strengths

We believe that we have the following competitive strengths:

- we have demonstrated a proven track record of multi-regional success by focusing on key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions the Pearl River Delta Region;
- we have acquired quality land bank at competitive costs;

- we have been successful in establishing the “Redco” brand in the cities where we have built up our presence;
- our standardized property designs and business protocols allow us to swiftly capture new market opportunities in the key economic cities;
- we have implemented prudent financial management policies with diversified financing channels;
- we provide full life-cycle services to clients leveraging the brand recognition; and
- we have a management team with strong execution capabilities and extensive industry experience.

Our Strategies

Within the next five years, we aim to become (i) one of the top 100 real estate developers in the PRC and (ii) an integrated developer with regional brand recognition and leading market shares in the cities where we have put efforts in development. We believe that we can achieve the aforesaid objectives by executing the following strategies:

- further expand our business operations in the key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region as well as other regions in China;
- continue our diversified land acquisition strategies with a view to allocating financial resources to what we believe to be the most profitable opportunities;
- continue to focus primarily on residential property development while achieving an optimal and diversified portfolio by developing a higher proportion of commercial property development projects;
- further strengthen our “Redco” brand by providing quality products to our customers and continuing to engage in projects that entail the construction of landmark properties;
- provide services satisfying demand along the full lifecycle of home buyers; and
- continue to recruit, retain and motivate a talented workforce.

Recent Development

Issuance of January 2019 Notes

On January 22, 2019, we issued the US\$250,000,000 13.5% senior notes due 2020. As of the date of this offering memorandum, the entire principal amount of the January 2019 Notes remain outstanding. For details, see “Description of Other Material Indebtedness.”

Full Repayment of the February 2018 Notes

On February 27, 2019, the February 2018 Notes have become matured and been fully repaid.

2019 HSB Syndicated Facility

On March 27, 2019, we entered into the 2019 HSB Syndicated Facility. For details, see “Description of Other Material Indebtedness.”

General Information

We were incorporated in the Cayman Islands as an exempted company with limited liability on July 14, 2008. Our shares have been listed on the Hong Kong Stock Exchange since January 21, 2014. Our place of business in Hong Kong is at Room 2001-2, Enterprise Square 3, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is <http://www.redco.cn>. 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	Redco Properties Group Limited (力高地產集團有限公司).
Notes Offered	US\$180,000,000 aggregate principal amount of 9.875% Senior Notes due 2021 (the “Notes”).
Offering Price	99.337% of the principal amount of the Notes.
Maturity Date	May 2, 2021.
Interest	The Notes will bear interest from and including May 2, 2019 at the rate of 9.875% per annum, payable in arrears.
Interest Payment Dates.	May 2 and November 2 of each year, commencing November 2, 2019.
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with the Existing Pari Passu Secured Indebtedness and 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 captions “Description of the Notes — The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;• effectively subordinated to the other secured obligations (if any, other than Permitted Pari Passu Secured Indebtedness) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral (as described below) by the Company and the Subsidiary Guarantor Pledgors and subject to certain limitations described under “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral” and “Description of the Notes — Security,” 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 shared on a pari passu basis pursuant to the Intercreditor Agreement with holders of the Existing Pari Passu Secured Indebtedness and holders of the Permitted Pari Passu Secured Indebtedness); and
- rank effectively senior in right of payment to unsecured obligations of the Company and the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

Each of the Subsidiary Guarantors 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.

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

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC and the Initial Other Non-Guarantor Subsidiaries.

All of the initial Subsidiary Guarantors are holding companies that do not have significant operations. See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) 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.”

Any future Restricted Subsidiary, as defined under “Description of the Notes — Definitions” (other than subsidiaries organized under the laws of the PRC, Exempted Subsidiaries and Listed Subsidiaries), will provide a guarantee of the Notes promptly upon becoming a Restricted Subsidiary.

Notwithstanding the foregoing sentence, the Company may elect to have any Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, *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 neither Subsidiary Guarantors nor JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

Ranking of Subsidiary
Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to the other secured obligations (if any) 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;
- ranks at least *pari passu* with the Existing Pari Passu Secured Indebtedness and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral by the Company and the Subsidiary Guarantor Pledgors and subject to certain limitations described under “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral” and “Description of the Notes — Security,” the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor and shared on a *pari passu* basis pursuant to the Intercreditor Agreement with holders of the Existing Pari Passu Secured Indebtedness and holders of the 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).

See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

Ranking of JV Subsidiary
Guarantees

A JV Subsidiary Guarantee may be provided by a Subsidiary Guarantor instead of a Subsidiary Guarantee following a sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor. No JV Subsidiary Guarantee exists as of the Original Issue Date.

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;

- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, 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, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law).

Security to Be Granted.

The Company has pledged, or caused the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of each initial Subsidiary Guarantor (the “Collateral”) (subject to Permitted Liens and the Intercreditor Agreement) in order to secure the obligations of the Company under the Existing *Pari Passu* Secured Indebtedness and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee of the Existing *Pari Passu* Secured Indebtedness.

Upon the accession by the Trustee to the Intercreditor Agreement, the benefit of the Collateral will be extended to secure the obligations of the Company under the Notes and of the Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantees.

In addition, the Collateral will be shared on a *pari passu* basis pursuant to the Intercreditor Agreement by and among the holders of the Notes, the holders of the Existing *Pari Passu* Secured Indebtedness and the holders of other Permitted *Pari Passu* Secured Indebtedness.

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

Intercreditor Agreement	<p>The Company, the initial Subsidiary Guarantor Pledgors, the Collateral Agent, Citicorp International Limited, the 2015 HSB Facility Agent and others entered into an intercreditor agreement dated as of March 20, 2015 (as such may be amended, modified or supplemented through the Original Issue Date, the “Intercreditor Agreement”) pursuant to which certain rights and interests with respect to the Collateral are regulated and a mechanism for future holders of Permitted Pari Passu Secured Indebtedness to become bound and be entitled to receive a pro rata entitlement to and equal priority in the Collateral is created. The 2017 HSB Facility Agent, the 2019 HSB Facility Agent and the trustee for each series of the other Existing Pari Passu Secured Indebtedness that constitutes senior notes acceded to the Intercreditor Agreement prior to the Original Issue Date. The Company has fully redeemed the 2014 Notes, 2017 Notes and February 2018 Notes in August 2017, November 2018 and February 2019, respectively.</p> <p>On the Original Issue Date, the Trustee shall execute a supplement to the Intercreditor Agreement pursuant to which the holders of the Notes (through the Trustee) will share equal priority and <i>pro rata</i> entitlement in and to the Collateral.</p>
Use of Proceeds	<p>We estimate that the net proceeds from this offering, after deducting the concessions and other estimated expenses payable by us in connection with this offering, will be approximately US\$176.0 million, which we plan to use to refinance certain of our existing indebtedness and for other general corporate purposes. We may adjust our foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”</p>
Optional Redemption	<p>At any time prior to May 2, 2021 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 defined in “Description of the Notes”) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.</p> <p>At any time and from time to time prior to May 2, 2021, the Company may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 109.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.</p>

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.

Redemption for Taxation Reason .

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

Covenants

The Notes, the Indenture governing the Notes and the 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 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. 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 2, 2019, which the Company expects will be the sixth business day following the date of this offering memorandum referred to as “T+6.” You should note that initial trading of the Notes may be affected by the T+6 settlement. See “Plan of Distribution.”
Paying Agent and Transfer Agent.	Citibank, N.A., London Branch.
Trustee and Collateral Agent	Citicorp International Limited.
Registrar	Citibank, N.A., London Branch.
Listing	Application has been made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.
Ratings	The Notes are expected to be rated B by Standard & Poor’s and B by Fitch. We cannot assure investors that such ratings will not be adversely revised or withdrawn either before or after delivery of the Notes.

Security Codes.....

ISIN

Common Code

XS1989092116

198909211

Governing Law

The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. The relevant pledge documents will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

Risk Factors.....

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

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary consolidated financial and other data. Our consolidated financial statements as of and for the years ended December 31, 2017 and 2018 were audited by our independent auditor, PricewaterhouseCoopers, Hong Kong Certified Public Accountants. The 2016 financial information, as contained therein, was restated to reflect a change in accounting policy with effect from January 1, 2017 when we changed our valuation model of investment property from the cost model to the fair value model, as the Directors of the Company considered that the change provides reliable and more relevant information to users of the financial statements.

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

The HKFRS 9 model introduces, among other things, an expected loss impairment model. HKFRS 15 is based on the principle that the revenue is recognized when control of a good or service transfers to a customer.

According to the HKFRS 9 and 15 transitional arrangements, upon initial application of HKFRS 9 and 15, the Group is not required to restate the comparative figures of the prior period. Instead, differences caused by the adoption of the HKFRS 9 and 15 are adjusted in the beginning balance of retained earnings and other comprehensive income. **As such, investors should exercise caution when reviewing our financial statements as of, and for the year ended December 31, 2018.**

Our financial statements for the years ended December 31, 2016, 2017 and 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Income Statement and Other Financial Data

	Year Ended December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
	(in thousands)			
Revenue	5,270,090	6,734,067	6,735,931	979,701
Cost of sales	(4,184,751)	(5,057,627)	(4,348,211)	(632,421)
Gross profit	1,085,339	1,676,440	2,387,720	347,280
Other gains/(losses), net.	171,237	(15,803)	248,469	36,138
Selling and marketing expenses	(146,611)	(195,475)	(183,499)	(26,689)
General and administrative expenses	(164,767)	(233,450)	(424,221)	(61,700)
Fair value gain on an investment property . . .	—	359,036	84,172	12,242
Impairment of goodwill	—	(49,535)	—	—
Operating profit	945,198	1,541,213	2,112,641	307,271
Finance income	15,302	44,729	95,025	13,821
Finance costs	(6,364)	(70,945)	(71,662)	(10,423)
Finance income/(cost), net	8,938	(26,216)	23,363	3,398
Share of profit of investments accounted for using the equity method, net	6,612	82,870	77,468	11,267
Profit before income tax	960,748	1,597,867	2,213,472	321,936
Income tax expense	(405,983)	(607,735)	(917,044)	(133,379)
Profit for the year	554,765	990,132	1,296,428	188,557
Profit attributable to:				
Owners of the company	450,756	862,237	990,747	144,098
Non-controlling interests	104,009	127,895	305,681	44,459
	<u>554,765</u>	<u>990,132</u>	<u>1,296,428</u>	<u>188,557</u>
Other financial data (unaudited)				
EBITDA ⁽¹⁾	1,041,556	2,022,083	2,183,851	317,628
EBITDA margin ⁽²⁾	19.76%	30.03%	32.42%	32.42%

Notes:

- (1) EBITDA for any period consists of profit before tax less other losses or gains, and share of profit or loss of investments accounted for using the equity method and interest income, plus finance costs, capitalized interest included in cost of sales, depreciation and amortization expenses and impairment of goodwill. 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 it 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.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Balance Sheet

	As of December 31,			
	2016	2017	2018	
	(RMB) (Restated)	(RMB)	(RMB)	(US\$) (unaudited)
	(in thousands)			
ASSETS				
Non-current assets				
Property, plant and equipment	31,423	36,489	221,300	32,187
Investment property	—	434,669	803,899	116,922
Goodwill	49,535	—	—	—
Investments accounted for using the equity method	374,432	1,034,521	700,294	101,854
Trade and other receivables, deposits and prepayments	—	475,236	60,000	8,727
Deferred income tax assets	219,133	238,931	459,833	66,880
	<u>674,523</u>	<u>2,219,846</u>	<u>2,245,326</u>	<u>326,570</u>
Current assets				
Completed properties held for sale	1,972,481	1,564,092	2,133,818	310,351
Properties under development for sale	5,717,924	5,728,454	15,680,128	2,280,580
Contract assets	—	—	700,000	101,811
Trade and other receivables and deposits	1,561,436	3,082,594	3,371,544	490,371
Prepayments	589,204	964,113	1,053,610	153,241
Amounts due from joint ventures	113,984	53,123	4,844	705
Amount due from an associate	3,479	32,719	364,871	53,068
Amounts due from non-controlling interests	463,439	672,675	1,414,342	205,708
Income tax recoverable	154,762	180,948	312,821	45,498
Restricted cash	1,186,255	1,318,450	2,186,139	317,961
Cash and cash equivalents	2,417,219	3,587,062	5,678,863	825,956
	<u>14,180,183</u>	<u>17,184,230</u>	<u>32,900,980</u>	<u>4,785,250</u>
Assets classified as held for sale	—	467,931	—	—
Total assets	<u>14,854,706</u>	<u>19,872,007</u>	<u>35,146,306</u>	<u>5,111,820</u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	139,632	139,632	139,632	20,309
Reserves	2,710,245	3,672,089	4,237,813	616,364
	<u>2,849,877</u>	<u>3,811,721</u>	<u>4,377,445</u>	<u>636,673</u>
Non-controlling interests	<u>555,158</u>	<u>797,579</u>	<u>2,287,973</u>	<u>332,772</u>
Total equity	<u>3,405,035</u>	<u>4,609,300</u>	<u>6,665,418</u>	<u>969,445</u>

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
	(in thousands)			
LIABILITIES				
Non-current liabilities				
Borrowings, secured.....	3,319,532	3,982,100	4,912,751	714,530
Deferred income tax liabilities.....	142,610	265,604	286,051	41,604
	<u>3,462,142</u>	<u>4,247,704</u>	<u>5,198,802</u>	<u>756,134</u>
Current liabilities				
Trade and other payables.....	2,224,538	2,156,112	6,323,532	919,720
Borrowings, secured.....	309,700	3,261,119	6,146,930	894,034
Amount due to an associate.....	—	—	66,000	9,599
Amounts due to non-controlling interests.....	451,308	116,414	2,123,659	308,873
Amount due to a joint venture.....	65,663	140,209	23,756	3,455
Contract liabilities.....	—	—	7,169,457	1,042,754
Receipts in advance.....	4,235,821	4,507,441	—	—
Income tax liabilities.....	700,499	832,164	1,428,752	207,806
	<u>7,987,529</u>	<u>11,013,459</u>	<u>23,282,086</u>	<u>3,386,241</u>
Liabilities directly associated with assets classified as held for sale.....	—	1,544	—	—
	<u>7,987,529</u>	<u>11,015,003</u>	<u>23,282,086</u>	<u>3,386,241</u>
Total liabilities.....	<u>11,449,671</u>	<u>15,262,707</u>	<u>28,480,888</u>	<u>4,142,375</u>
Total equity and liabilities.....	<u>14,854,706</u>	<u>19,872,007</u>	<u>35,146,306</u>	<u>5,111,820</u>
Net current assets.....	<u>6,192,654</u>	<u>6,637,158</u>	<u>9,618,894</u>	<u>1,399,009</u>
Total assets less current liabilities.....	<u>6,867,177</u>	<u>8,857,004</u>	<u>11,864,220</u>	<u>1,725,579</u>

RISK FACTORS

You should carefully consider the risks 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

Our results of operations are largely dependent on the development schedules and pre-sales of our projects and may therefore fluctuate significantly from period to period, and such fluctuations make it difficult to predict our future performance

Since we derive our revenue primarily from the sale of properties developed by us, our future cash flows and revenue are heavily affected by the schedule of pre-sale and sale of our properties.

Our results of operations have varied significantly in the past and may continue to fluctuate significantly from period to period in the future. For the years ended December 31, 2016, 2017 and 2018, our revenue was RMB5,270.1 million, RMB6,734.1 million and RMB6,735.9 million (US\$979.7 million), respectively; our net profit attributable to our equity holders was RMB450.8 million (restated), RMB862.2 million and RMB990.7 million (US\$144.1 million), respectively. Our results of operations may continue to vary and fluctuate in the future due to various factors, including the overall development and delivery schedule of our property projects, the level of acceptance by our customers of our properties, the timing of the pre-sale and sale of properties, our revenue recognition policies, any changes in our development costs and expenses and the general condition of the property market. Our property developments are often developed in multiple phases over the course of several years. According to our revenue recognition policy, we recognize revenue from sales of our properties upon delivery to purchasers. There is a time difference between pre-sales of projects under development and the completion of construction works. Periods in which we pre-sell a large amount of aggregate GFA may not be periods in which we generate a correspondingly high level of revenue, if the properties are not completed and delivered within the same period. Our revenue and profit for any period may decrease if the number of properties we deliver declines during such period. For example, our expected delivery of properties in 2016 is more concentrated in the second half of the year, and as a result, our revenue and profit in the first half of 2016 will reflect the quantity of properties delivered during that period and may not be indicative of the actual demand for our properties or contracted sales achieved during that period. The effect of timing of delivery on our results of operation is accentuated by the fact that we can only undertake a limited number of projects at a particular time, as we require substantial capital to fund land acquisition and construction costs.

Accordingly, our results of operations for any given period may not be indicative of the actual demand for our properties or the pre-sales or sales achieved during such period. Our revenue and profit during any given period generally reflect property purchases at a time in the past, typically in the prior fiscal period. Accordingly, our results of operations are not necessarily indicative of results that may be expected for any future period. Furthermore, our interim results may not be indicative of our annual results.

We had net operating cash outflows for the year ended December 31, 2017 and 2018. If we are unable to meet our payment obligations, our business, financial condition and results of operations may be materially and adversely affected

For the years ended December 31, 2017 and 2018, we recorded net cash outflows from operating activities of approximately RMB134.9 million and RMB2,256.1 million (US\$328.1 million), respectively. Our net operating cash outflows was principally attributable to cash outflow associated with land acquisition and properties under development for sale. We cannot assure you that we will not experience net operating cash outflows in the future. Net operating cash outflows require us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will be in default of our payment obligations, including those under the Notes and may not be able to develop our projects as planned or meet our capital expenditure requirements. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our business and revenue growth are primarily dependent on favorable economic conditions in the PRC, particularly the performance of the PRC residential property market in the cities in which we develop our property development projects, and therefore any potential decline in demand for properties, property sales or property prices in the PRC, particularly in the cities where we have operations, could have a material adverse effect on our business, results of operations and financial condition

Our business and revenue growth is subject to favorable economic conditions in the PRC, particularly in the cities where our property projects are located. As we focus on the development of residential developments in the PRC, if the property market, in particular the residential property market, in the PRC performed badly, it would have a direct adverse effect on us.

The PRC property market is affected by many factors, including changes in the PRC's social, political, economic and legal environments, changes in the PRC government's fiscal and monetary policy, the lack of a mature and active secondary market for residential properties and the limited availability of mortgage loans to individuals in the PRC. We are also sensitive to changes in the economic conditions, consumer confidence, consumer spending and customer preferences of the urban Chinese population. Other factors beyond our control, such as levels of personal disposable income, may also affect consumer confidence in our geographical markets and demand for our properties.

Demand for residential properties in the PRC has been growing rapidly over the past few years. However, such growth is often coupled with volatility in market conditions and fluctuations in housing prices. There have been concerns that the PRC property market has been overheating and may become a property "bubble." In response, the PRC government has taken measures to prevent the overheating of the PRC property market. Such measures may lead to changes in market conditions, price instability and an imbalance between the supply of and demand for properties in the PRC.

We cannot assure you that the PRC residential property market and housing prices will continue to grow at past levels or will not decline. Any potential decline in demand for properties, property sales or property prices in the PRC, particularly in the cities where we have operations, could have a material adverse effect on our business, results of operations and financial condition for example, drop in revenue and profit etc..

We may not be able to identify suitable land or acquire land use rights for future development at reasonable prices, or at all, and if that happens, our business, results of operations and financial condition as well as prospects may be materially and adversely affected

We derive substantially all of our revenue from the sale of properties that we have developed. We must continuously acquire land use rights for sites suitable for future development at reasonable prices at an appropriate pace in order to generate sustainable revenue and maintain business growth. There is a limited supply of suitable land available for development in the cities or regions into which we plan to expand, and the costs of acquiring land use rights in many such cities have increased in recent years. We also face strong competition from other property developers for sites that we may target. We cannot assure you that we will be able to successfully acquire any or all of the land use rights for projects planned for future development at reasonable prices, or at all.

The PRC government has control over the supply of substantially all land and their approved usage, and regulates various aspects of the process through which land is acquired and developed. Such PRC government land policies have a direct impact on our ability to acquire land and our costs of acquisition. Any changes in PRC government land policies with regard to land supply and development may lead to increases in our costs of acquisition and limit our ability to successfully acquire land at reasonable prices, which would have a material adverse effect on our business, results of operations and financial condition. The various PRC regulatory measures may also intensify the competition for land in the PRC among property developers. Please refer to the section headed “— Risks relating to our industry — Our operations are subject to extensive governmental regulations and the frequent introduction of new regulations, and we may be affected by further measures by the PRC government to slow down the growth of the property sector” in this offering memorandum for further details. For additional information on the regulatory procedures and restrictions on land acquisition in the PRC, please refer to the section headed “Regulation” in this offering memorandum.

If we fail to acquire land use rights for sites suitable for development in a timely manner, at reasonable prices or at all, or if further changes in government policies with regard to land supply and development lead to increases in our costs of acquisition, our business, results of operations and financial condition as well as prospects may be materially and adversely affected.

We may not be able to obtain land use rights of parcels of land with respect to which framework agreements or letters of intent have been entered into, and as a result, there may be a material adverse effect on our business, results of operation and financial condition

We may enter into agreements or letters of intent with relevant governmental authorities and third parties with respect to parcels of land. We may also, from time to time, pay deposits or advance payments pursuant to such agreements, letters of intent and other arrangements in an attempt to acquire land. Such arrangements do not constitute land grant contracts. We cannot assure you that these agreements or letters of intent will eventually result in our acquisition of any land use rights or our entering into of any land grant contract, or that the governmental authorities will grant us the land use rights or issue the relevant land use rights certificates in respect of these parcels of land. If we fail to obtain or experience a material delay in obtaining the land use rights, there may be a material adverse effect on our business, results of operation and financial condition. If a land acquisition fails

to materialize, we are generally entitled to a refund of our advance payments or deposits pursuant to the relevant agreements or arrangements. However, there is no assurance that the refund will be made on a timely basis. If there is any delay in refunding our deposits or advance payments, our business, results of operations and financial condition may be materially and adversely affected.

We rely on our external contractors for all of our construction works and if any of these contractors fail to deliver satisfactory services, our reputation, business, results of operations and financial condition may be materially and adversely affected

We outsource construction works of all our projects to external contractors. Such works include, among other things, foundation digging, general construction and installation of equipment. We consider a wide range of factors when selecting a contractor. We cannot assure you that any such external contractor will provide satisfactory services at the required quality level. If the performance of any external contractor is unsatisfactory, we may need to replace the external contractor or take other actions to remedy the situation, which may have a material adverse effect on the cost and construction progress of our projects.

In accordance with applicable PRC laws and regulations, we provide warranties on the quality of properties we construct or sell to our customers. We receive quality warranties from third-party contractors we engage to construct our development projects. If claims are brought against us under our warranties, and if the relevant third-party contractor fails to indemnify us for such claims in a timely manner or at all, or the indemnity provided is not sufficient, we could incur significant expenses to resolve such claims or face delays in rectifying such defects. The occurrence of these events may harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

Furthermore, our external contractors may undertake projects from other developers, engage in risky undertakings or otherwise encounter financial or other difficulties, which may cause delay in the completion of our property projects or increase our project development costs. The occurrence of any of the above events may have a material adverse effect on our reputation, business, results of operations and financial condition.

We may not be successful in managing our expansion into new cities or regions, and as a result our business, results of operation and financial condition may be materially and adversely affected

We have focused primarily on the development of residential properties in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region in the PRC. We have also established our presence in Shanghai since 2015 and Sydney, Australia since 2016. We intend to continue to expand our operations into additional cities in these regions. In addition, we intend to expand into other regions with growth potential.

Expanding into new geographical locations involves uncertainties and challenges as we may be less familiar with local regulatory practices and customs, customer preferences and behavior, the reliability of local contractors and suppliers, business practices and business environments and municipal-planning policies. In addition, expanding our business into new geographical locations would entail competition with developers who may have a better-established local presence or greater access to local expertise and knowledge than we do.

As we may face challenges not previously encountered, we may fail to recognize or properly assess risks or take full advantage of opportunities, or otherwise fail to adequately leverage our past experience to meet challenges encountered in these new markets. For example, we may have difficulty in accurately predicting market demand for our properties in the cities into which we expand.

In addition, expanding into new geographic locations requires a significant amount of capital and management resources. We will also need to manage the growth in our workforce to match the expansion of our business. Any of these factors could have a material adverse effect on our business, results of operations, financial conditions as well as prospects.

A deterioration in our reputation and brand image may have a material adverse effect on our business, results of operations and financial condition

We rely on our reputation and brand image to attract potential customers to our properties. Reputation and brand image are based largely on consumer perceptions with a variety of subjective qualities and can be damaged by isolated business incidents that degrade consumer confidence. Any negative incident or negative publicity concerning us or our properties, whether accurate or not, may damage our reputation and have a material adverse effect on our business, results of operations and financial condition. In addition, any inaccurate or negative media reports may require us to engage in defensive actions, which may divert our management's attention and adversely affect our business and results of operations. We cannot assure you that there will not be any other false, inaccurate or negative media reports about us or our projects in the future.

We may fail to obtain, or experience material delays in obtaining, requisite certificates, licenses, permits or governmental approvals for our property development operations, and as a result our development plans, business, results of operations and financial condition may be materially and adversely affected

The property industry in the PRC is heavily regulated. During various stages of our property development projects, we are required to obtain and maintain various certificates, licenses, permits, certificates and governmental approvals, including but not limited to qualification certificates, land use rights certificates, construction land planning permits, construction works planning permits, construction works commencement permits, pre-sale permits and completion certificates. Before the government authorities issue or renew any certificate, license or permit, we must meet specific conditions. Please refer to the section headed "Regulation" in this offering memorandum for details. The GFA of the projects developed by six of our PRC subsidiaries exceeded the limit stipulated in their qualification certificates. Under the relevant laws and regulations, such PRC subsidiaries may be required to rectify within a stipulated period of time and subject to a fine up to RMB100,000. If such PRC subsidiaries fail to make rectification as required, their qualification certificates and business licenses may be revoked. As of the date of this offering memorandum, we have not received any notice from relevant authorities in relation to such projects.

We cannot assure you that we will be able to adapt to new PRC land policies that may come into effect from time to time with respect to the property development industry or that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary certificates, licenses or permits for our operations in a timely manner, or at all, in the future. If we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary certificates, licenses or permits for any of our major property development projects, we will not be able to continue with our development plans or they may be delayed, and our business, results of operations and financial condition may be adversely affected.

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

The progress of a property development project may be materially and adversely affected by various factors, including delays in obtaining necessary licenses, permits or governmental approvals, shortages of materials, equipment and skilled labors, labor disputes, negligence or poor work quality of contractors, construction accidents, natural catastrophes, adverse weather conditions and changes in governmental policies.

We make certain undertakings in our sales contracts including delivering completed properties and individual building ownership certificates to our customers within the period stipulated in the sales contracts. These sales contracts and the relevant PRC laws and regulations provide for remedies for breach of such undertakings. If we fail to complete the properties on time, our customers may seek compensation for late delivery pursuant to either their sales contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our customers may terminate the sales contracts and claim compensation. Our customers may also elect to default on such sales contracts. We may also be liable to our customers for any delay in the delivery of individual building ownership certificates, which is caused by delays in the administrative approval process or other reasons beyond our control.

We cannot assure you that we will not experience any significant delays in the completion or delivery of our properties, or that we will not be subject to any liabilities for any such delays. Liabilities arising from any delays in the completion or delivery of our properties may have a material adverse effect on our business, results of operations and financial condition. In addition, you should not unduly rely upon our contracted sales numbers (which have neither been audited nor reviewed by our auditor) contained in this offering memorandum as a measure or indication of our current or future operating performance.

The PRC government may impose fines or other penalties on us if we fail to comply with the terms of the land grant contracts or listing-for-sale confirmation letters, and we may not be able to obtain land use rights certificates with respect to certain parcels of land

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

Under current PRC laws and regulations, we may be subject to late penalties as stipulated in the land grant contracts if we fail to pay any outstanding land premium by the stipulated deadline. If we fail to commence development for more than one year from the commencement date stipulated in the land grant contracts, the relevant PRC land and resource authorities may serve an investigation notice and impose an idle land fee of up to 20% of the land premium on us if the delay is found out not to be caused by government actions or force majeure. If we fail to commence development for more than two years, the land may be subject to forfeiture by the PRC government unless the delay is caused by government actions or force majeure. Furthermore, even if we commence development in accordance with the land grant contracts, if the developed land area is less than one-third of the total land area, or if the total capital expenditure on land development is less than one-fourth of the total amount expected to be invested in the project as specified in the project registration or approval documents, not including the purchase price of the land, and the development of the land is suspended for over one year without government approval, the land will still be treated as idle land.

We cannot assure you that we will be able to fully comply with the obligations under the land grant contracts or listing-for-sale letters in the future due to factors which are beyond our control, or that our property development projects will not be subject to idle land penalties or be taken back by the government as a result of such delays. If we fail to comply with the terms of any land grant contract or listing-for-sale confirmation letter as a result of delays in project development or any other reasons, we may lose our previous investments in the land and the opportunity to develop the project, which may have a material adverse effect on our business, results of operations and financial condition.

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

In line with industry practice, we provide guarantees for mortgage loans given by banks to our purchasers of properties developed by us. Typically, we guarantee mortgage loans given by banks to purchasers until the earlier of (i) the relevant properties are completed and the relevant building ownership certificates and the mortgage are registered in favor of the mortgagee bank, and (ii) the mortgage loans between the mortgagee bank and the purchaser are settled. If a purchaser defaults on a mortgage loan, we may be required to repurchase the underlying property by paying off the mortgage. If we fail to do so, the mortgagee bank may auction the underlying property and recover any additional amount outstanding from us as the guarantor of the mortgage loans. In line with industry practice, we do not conduct any independent credit checks on our customers and rely on the credit evaluation conducted by the mortgagee banks on such customers. These are contingent liabilities not reflected on our balance sheets.

As of December 31, 2016, 2017 and 2018, our outstanding guarantees in respect of the mortgages for certain purchasers of our properties amounted to RMB5,100.3 million, RMB6,052.4 million and RMB5,932.8 million (US\$862.9 million), respectively. For the three years ended December 31, 2016, 2017 and 2018, we encountered a total of twelve incidents of default by purchasers, which involved an aggregate default payment of RMB1.85 million. If there is any material default and if we were called upon to honour our guarantees, our business, results of operations and financial condition may be materially and adversely affected.

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

We finance our property development projects primarily through proceeds from pre-sales and sales and bank borrowings. Changes in interest rates have affected, and will continue to affect, the financing costs for our property developments. Our bank borrowings are primarily denominated in Renminbi. The interest rates on our Renminbi bank borrowings are primarily affected by the benchmark interest rate set by the PBOC, which has fluctuated significantly in recent years. The PBOC benchmark one-year lending rates in the PRC (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2016, 2017 and 2018 was 4.35%. The weighted average effective interest rate for our bank loans was 5.31%, 6.84% and 6.5%, respectively, as of December 31, 2016, 2017 and 2018, and the weighted average effective interest rate for our trust financing arrangements was nil, 8.83% and 9.03%, respectively, as of December 31, 2016, 2017 and 2018. Most of our finance costs are capitalized and recognized as cost of sales upon the sale of properties. As a result, such capitalized finance costs may adversely affect our gross profit margin upon the sales of properties in future. In addition, changes 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. In 2016, 2017 and 2018, our finance costs were RMB6.4 million, RMB70.9 million and RMB71.7 million (US\$10.4 million), respectively.

We cannot assure you that the PBOC will not raise lending rates further or otherwise discourage bank lending. Further increases in lending rates may increase our finance costs, which may have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in cost of construction materials or cost of labor may have a material adverse effect on our business, results of operations and financial condition

The cost of construction materials such as steel and cement, as well as contractors' labor costs, may fluctuate. For example, construction material costs experienced periods of fluctuations in 2016, 2017 and 2018. We procure construction materials through our external contractors or by ourselves. If the price of construction materials increases beyond the agreed pre-determined percentage, we may be required to reimburse our contractors for any shortfall. If there is a material increase in the costs of construction materials and we cannot pass on such increase to our customers, our business, financial conditions and results of operations may be materially and adversely affected.

Our construction costs have also been affected by rising labor costs in the PRC in recent years, and we expect labor costs in the PRC to continue to increase in the future.

Moreover, we generated revenue from trading of construction materials in 2018. However, we cannot guarantee that we will continue to generate revenue or profit from trading of construction materials in the future if prices of construction materials fluctuate and we fail to manage our inventory effectively.

If the cost of construction materials or cost of labor deviate materially from our initial estimation, our business, results of operations and financial condition may be materially and adversely affected.

Our success is dependent on the continuing service of members of our senior management, and if we lose the services of any of these key executives and cannot replace them in a timely manner, our business may be materially and adversely affected

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of members of our senior management, in particular our chairman, Mr. Wong. If we lose the services of any of our key executives and cannot replace them in a timely manner, our business may be materially and adversely affected.

In addition, our success depends on our ability to attract and retain talented personnel. We may not be able to successfully attract, assimilate or retain all the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain competent personnel and any increase in staffing costs to retain such personnel could have a negative effect on our ability to maintain our competitive position and to grow our business, and our business, results of operations and financial condition may be materially and adversely affected as a result.

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

We face various risks in connection with our businesses and may lack adequate insurance coverage or may have no relevant insurance coverage. In addition, in line with general industry practice in the PRC, we do not maintain insurance in respect of litigation risks, business termination

risks, product liability or important personnel of our Group. Please refer to the section headed “Business — Insurance” in this offering memorandum for further information. The occurrence of any of these events may result in an interruption of our operations and subject us to significant losses or liabilities. In addition, there are certain losses for which insurance is not available on commercially reasonable terms, such as losses suffered due to earthquake, war, civil unrest and certain other events of force majeure. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our business, results of operations and financial condition may be materially and adversely affected.

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

We may from time to time be involved in disputes with various parties involved in the development and sales of our properties, including contractors, suppliers, construction workers and purchasers. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs to our operations, and diversion of our management’s attention. In addition, we may have disagreements with regulatory bodies in the ordinary course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in significant liabilities and cause delays to our property developments. We cannot assure you that we will not be so involved in any major legal or other proceedings in the future.

We are subject to certain restrictive covenants and risks normally associated with borrowings which may limit or otherwise materially and adversely affect our business, results of operations and financial condition

Certain of our banking facilities are subject to a number of material, customary affirmative and/or negative covenants. For example, certain of our subsidiaries are restricted from carrying out merger, restructuring, spin-off, material asset transfer, liquidation, change of control, reduction of registered capital, change of scope of business, declaration and payment of dividends and incurring further indebtedness without the prior consent of the relevant banks. Certain of our banking facilities taken out by certain of our operating subsidiaries also contain cross default conditions which deem a breach of default conditions under relevant financing facilities by the related companies of such operating subsidiaries and their guarantor(s) to be a default by such operating subsidiaries of the banking facilities. If any cross default occurs, these banks are entitled to accelerate payment of all or any part of the indebtedness owing under the relevant loan agreements and to enforce all or any of the security for such indebtedness. If we fail to comply with any of those covenants or repay these loans in part or in full at their respective maturity dates, there may be a material adverse effect on our business, results of operations and financial condition.

We engage in resettlement operations that involve the resettlement of existing residents and the resettlement process may be delayed or not be completed as planned, and as a result our land acquisition and development process may be materially and adversely affected

We undertook or may undertake resettlement operations whereby either we or the original land use rights owner are responsible for resettlement operations including compensation and resettlement of affected local residents, demolition of existing structures and clearing of land of the relevant areas. We are often required to repay certain amounts to the local government authorities before commencement of such resettlement operations. In cases where resettlement of local residents is involved, we may be required to compensate the affected local residents in accordance with applicable

laws and regulations. Any disputes with affected local residents as to the related compensation or refusals of dissenting residents for relocation may increase our resettlements costs, delay the resettlement process and the subsequent land acquisition and development process, which may in turn have a material adverse effect on our business, results of operation and financial condition.

As of December 31, 2017, we were involved in ongoing resettlement operations. In respect of our ongoing resettlement operation in Yantai, we had paid site clearing fees in the amount of RMB61.5 million under our current arrangements with the relevant governmental authority and acquired three parcels of land with RMB497.2 million. The local governmental authority is responsible for entering into resettlement agreements with affected local residents and clearing the relevant land so that it becomes ready for subsequent public tender, listing-for-sale or auction. Site clearing fees shall be returned to us upon full payment of the land grant premium by the successful bidder of the land at the subsequent public tender, listing-for-sale or auction. Please refer to the section headed “Business — Resettlement Operations” in the offering memorandum for further details on the projects.

There is no assurance that we can successfully obtain land use rights at the subsequent public tender, listing-for-sale or auction with respect to the land for which we have engaged in resettlement operations. There is also no assurance that our prepayments will be returned to us in a timely manner if we fail to obtain land use rights at the subsequent public tender, listing-for-sale and auction. If we cannot acquire land use rights for future property development projects, there may be a material adverse effect on our business, results of operations and financial condition.

Investment in real properties is relatively illiquid, and we may not be able to sell such investment properties at prices or on terms satisfactory to us, or at all

We intend to increase the proportion of commercial property projects while strategically retaining high quality commercial properties as investment properties for generating rental income. In general, investment in real properties is relatively illiquid compared with other forms of investment. We may need to dispose of certain investment properties in the event of changing economic, financial and investment conditions. However, we cannot assure you that we will be able to sell such investment properties at prices or on terms satisfactory to us, or at all.

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

We are subject to a variety of laws and regulations concerning the protection of the environment. The applicable environmental laws and regulations may vary significantly depending on the location, environmental condition and present and former uses of the site. Project development activities can be severely restricted or prohibited in environmentally sensitive regions or areas. Compliance with health and environmental laws and conditions may result in delays or cause us to incur substantial compliance and other costs. Please refer to the sections headed “Business — Health, work safety, social and environmental matters — Environmental Matters” in this offering memorandum for details.

As required by PRC laws, we have engaged independent third-party environmental consultants to conduct environmental impact assessments at all of our construction projects, and such environmental impact assessments were submitted to the relevant government authorities for approval before commencement of development. It is possible that the environmental impact assessment conducted may not reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. If any portion of the project is found to be non-compliant with relevant environmental standards, we may be subject to suspension of our operations of such project as well as fines and penalties.

Future investments or acquisitions may have a material adverse effect on our ability to manage our business and harm our results of operations and financial condition

We may make strategic investments and acquisitions that complement our operations. However, our ability to make successful strategic investments and acquisitions will depend to a large extent on our ability to identify suitable acquisition targets that meet our investment and acquisition criteria, to obtain financing on favorable terms and, where relevant, to obtain the required regulatory approvals. In the event that we are unable to make, or are restricted from making, such strategic investments or acquisitions due to regulatory, financial or other constraints, we may not be able to effectively implement our investment or expansion strategies.

Acquisitions typically involve a number of risks, including, but not limited to:

- the difficulty of integrating the operations and personnel of the acquired business;
- the potential disruption to our ongoing business and the distraction of our management;
- the difficulty of maintaining uniform standards, controls, procedures and policies;
- the impairment of relationships with employees and customers as a result of integration of new management and personnel;
- unrevealed potential liabilities associated with acquired businesses;
- higher than planned requirements to preserve and grow the value of acquired businesses or assets; and
- adverse effects on our results of operations due to the amortization of and potential impairment provision for goodwill or other intangible assets associated with acquisitions, and losses sustained by acquired businesses after the date of acquisitions.

We may not be able to make acquisitions or investments on favorable terms or within a desired time frame. Even if we were able to make acquisitions or investments successfully as desired, we cannot assure you that we will achieve an intended level of return on such acquisitions or investments. In addition, we may require additional equity financing in order to make such acquisitions and investments. If obtained, any such additional equity financing may result in dilution to the holdings of existing shareholders. Any of these factors could have a material adverse effect on our business, results of operations, financial condition and prospects.

We mainly purchase from a small group of suppliers, and any disruption in their supply may have a material adverse effect on our business, results of operations and financial condition

In 2016, 2017 and 2018, our major suppliers were mainly our construction contractors. Purchases from our five largest suppliers accounted for approximately 28.8%, 25.5% and 23.1%, respectively, of our total purchases for the years ended December 31, 2016, 2017 and 2018, and purchases from our largest supplier accounted for approximately 17.1%, 17.7% and 11.1%, respectively, of our total purchases for the corresponding periods. Should there be a disruption in supply by one or more of our major suppliers and we fail to find replacement suppliers on favorable terms, or at all, our business, results of operations and financial condition may be materially and adversely affected. Please refer to section headed “Business — Suppliers and Customers — Suppliers” in this offering memorandum for further details.

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

Certain members of our Group have failed to lay their profit and loss accounts and balance sheets at their respective annual general meeting and/or lay their accounts made up to date not more than nine months before the annual general meeting in accordance with requirements under the Companies Ordinance in history. For risks associated with our failure to comply with the terms of the land grant contracts or listing-for-sale confirmation letters, please refer to the section headed “— Risks relating to our business — The PRC government may impose fines or other penalties on us if we fail to comply with the terms of the land grant contracts or listing-for-sale confirmation letters, and we may not be able to obtain land use rights certificates with respect to certain parcels of land” in this offering memorandum. For risks associated with our failure to comply with the PRC State Administration of Foreign Exchange (“SAFE”) registration requirements, please refer to the section headed “— Risks relating to conducting business in the PRC — Failure to comply with SAFE regulations relating to the establishment of special purpose vehicles by our beneficial owners may materially and adversely affect our business operations” and “— Risks relating to conducting business in the PRC — Failure to comply with the cross-border guarantee related regulations may materially and adversely affect our business, results of operations and financial condition” in this offering memorandum. Although we have put in effect internal control measures to prevent occurrence of similar incidents in the future, there is no assurance that our Group will not have any non-compliance incidents in the future. In the event that we breach any applicable laws, rules or regulations in the future, we may be subject to fines or penalties arising from such non-compliance incidents, which may have a material adverse effect on our business, results of operations and financial condition.

We may be subject to fines due to the commencement of construction works prior to obtaining the relevant construction works commencement permit or building unauthorized construction without local government’s permission

Pursuant to the Regulation on the Quality Management of Construction Projects 《(建設工程質量管理條例)》 promulgated by the State Council on January 10, 2000, effective on January 30, 2000 and amended on October 7, 2017, a property developer shall apply for a construction works commencement permit from the relevant authority prior to the commencement of any construction works on the land. If a property developer fails to obtain the relevant construction works commencement permit before commencement of construction works, the relevant authorities may order the property developer to stop the construction and make corrections and impose a fine of no less than 1% but no more than 2% of the contractual price of the project to the property developer. Where a fine is imposed on the property developer, a fine of no less than 5% but no more than 10% of the amount of the property developer’s fine may be imposed on the directly liable person-in-charge and other directly liable persons in the property developer. If any of our project companies commences construction without the construction work commencement permit, we may be subject to fines, which may have an adverse effect on our business, results of operations and financial condition.

We may not be able to realize the anticipated economic and other benefits from our joint ventures, and disputes with joint venture partners or any violation of PRC laws by our joint ventures may adversely affect our business, results of operations and financial condition

We have entered into joint ventures with other property developers to develop projects and may continue to do so in the future. The success of a joint venture depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realize the anticipated economic and other benefits from our joint ventures. In addition, in accordance with PRC law, certain matters relating to joint ventures require the consent of all parties to the joint ventures. Joint ventures may involve risks associated with, among others, the possibility that our joint venture partners may:

- have economic or business interests or goals inconsistent with ours;
- take actions contrary to our instructions, requests or our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

In addition, since we do not have full control over the business and operations of our joint ventures, we cannot assure that they have been, or will be in strict compliance with all applicable PRC laws and regulations. We cannot assure you that we will not encounter problems with respect to our joint ventures or our joint ventures will not violate applicable PRC laws and regulations, which may have an adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO OUR INDUSTRY

We may not have adequate financing, whether through bank loans or other arrangements, to fund our property developments, and such capital resources may not be available on commercially reasonable terms, or at all

Property development is capital intensive. We finance our property development projects primarily through proceeds from sales of properties and bank borrowings. We may also access the capital markets to raise further financing. Our ability to obtain external financing in the future is subject to a variety of uncertainties, many of which are beyond our control, including:

- the condition of the international and domestic financial markets and financing availability;
- obtaining the necessary PRC government approvals to raise financing in the domestic or international markets;
- our future financial condition, results of operations and cash flow;
- general economic conditions in the PRC;
- performance and outlook of the property development industry in the PRC;
- changes in the monetary policy of the PRC government with respect to bank interest rates, lending practices and conditions; and
- changes in policies regarding regulation and control of the property market.

We cannot assure you that we will be able to meet our sales targets or that banks or other lenders will grant us sufficient financings in the future as we expect. Accordingly, we may not be able to raise enough funds for our continuing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.

There are certain PRC laws and regulations which govern financing policies on PRC financial institutions for the property development sector and tighten the criteria for banks to provide loans to property development enterprises and limit the accessibility of bank financing to our development projects. Please refer to the section headed “Regulation” in this offering memorandum.

The PRC government may further tighten financing policies on PRC financial institutions for the property development sector. These property-related financing policies may limit our ability and flexibility to use bank borrowings to finance our property projects and therefore may require us to maintain a relatively high level of internally generated cash.

We cannot assure you that the PRC government will not introduce other initiatives, which may further limit our access to capital and the ways we finance our property development projects, or that we will be able to secure adequate financing or renew our existing credit facilities prior to their expiration on commercially reasonable terms, or at all. If we fail to secure adequate financing or renew our existing loans prior to their expiry as a result of these governmental actions and policy initiatives, there may be a material adverse effect on our business, results of operations and financial condition.

Our operations are subject to extensive governmental regulations and the frequent introduction of new regulations, and we may be affected by further measures promulgated by the PRC government to slow down the growth of the property sector

Our business of developing and selling residential premises is extensively regulated in the PRC. We are required to comply with various PRC laws and regulations, as well as policies and procedures prescribed by local authorities 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, which, among other things, control foreign exchange, taxation, foreign investment and the supply of land for property development. Through these policies and measures, the PRC government may raise the benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales, impose foreign exchange restriction on cross-border investment and financing related activities and restrict foreign investment in the PRC property sector and restrict or reduce the supply of land for property development. In the event that we breach any applicable laws, rules, regulations or restrictions, we may be subject to fines or penalties, which may have a material adverse effect on our business, results of operations and financial condition.

Over the past few years, the PRC government has introduced a number of policies to control the growth and curtail the overheating of, and the foreign investment in, the PRC property sector. Please refer to the section headed “Regulation” in this offering memorandum for further details.

The PRC government’s measures and policies could restrict our ability to obtain financing and increase our operating costs, as well as limit our potential customers’ ability to purchase our properties. Measures and policies adopted by the PRC government to restrict the ability of purchasers to obtain mortgages, to resell their properties or to increase the cost of mortgage financing may reduce market demand for our properties and therefore have a material adverse effect on our business, results of operations and financial condition. The PRC government may adopt further measures in the future which may further reduce market demand and slow down the growth of the property industry. These measures may have a material adverse effect on our business, results of operations and financial condition.

Changes in PRC laws and regulations with respect to pre-sale may have a material adverse effect on our business performance

We depend on cash flows from the pre-sale of properties as an important source of funding for our property development. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use

pre-sale proceeds to finance their development. Moreover, on September 21, 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Relevant Opinions on Providing the Pre-sale Permit for Commodity Houses” (《關於請提供商品房預售許可有關意見的緊急通知》), asking for opinions on the cancelation of the pre-sale system of commodity residential properties. We cannot assure you that the PRC government will not implement further restrictions on property pre-sale, such as imposing additional conditions for obtaining pre-sale permits or imposing further restrictions on the use of pre-sale proceeds. The adoption of any such measures may materially and adversely affect our cash flow position and force us to seek alternative sources of funding to finance our project development, which may not be available on commercially reasonable terms, or at all. If adequate funds are not available from alternative funding, 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.

The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations which could have a material adverse effect on our results of operations

In accordance with PRC regulations on LAT, all persons including companies and individuals that receive income from the sale or transfer of land use rights, properties and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the property. In 2016, 2017, and 2018, we incurred LAT of RMB247.6 million, RMB179.0 million and RMB381.9 million (US\$55.5 million), respectively. Pursuant to a circular issued by the State Administration of Taxation, effective February 1, 2007, LAT obligations must be settled with the relevant tax authorities under specific circumstances. Please refer to the section headed “Regulation — Major taxes applicable to property developers” in this offering memorandum for a detailed description of PRC regulations on LAT.

We make provisions for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time pending settlement of the same with the relevant tax authorities. As we often develop our projects in several phases, deductible items for calculation of LAT, such as land costs, are apportioned amongst such different phases of development. Provisions for LAT are made on our own estimates based on, among others, our own apportionment of deductible expenses which are subject to final confirmation by the relevant tax authorities upon settlement of the LAT. However, given the time gap between the point at which we make provision for and the point at which we settle the full amount of LAT payable, the relevant tax authorities may not necessarily agree with our own apportionment of deductible expenses or other bases on which we calculate LAT. If we substantially underestimated LAT for a particular period, a payment of the actual LAT assessed and levied on us by the tax authorities could have a material adverse effect on our results of operations for a subsequent period.

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

Many purchasers of our properties rely on mortgages to finance their purchases. Any increase in interest rates may significantly increase the cost of mortgage financing, thus affecting the purchasers’ affordability of properties. In addition, the PRC government and commercial banks may 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.

From time to time, the PRC government issues laws, regulations or government policies regarding mortgage financing to regulate the PRC property market. In January 2010, the State Council issued the Circular on Promoting the Stable and Healthy Development of the Real Estate Market (《關

於促進房地產市場平穩健康發展的通知》), which, among other things, provides that homeowners with outstanding mortgage loans who intend to buy additional housing properties for themselves, their spouses or dependent children are required to pay a down payment of no less than 40% of the purchase price and the applicable interest rate shall be set strictly based upon the associated risk level. In April 2010, the State Council issued a notice to raise the minimum down payment for second home purchases to 50% and set a minimum 30% down payment on first homes with a GFA of more than 90 sq.m. Further, pursuant to such notice, interest rate for mortgage loans of second homes cannot be lower than 110% of the PBOC benchmark lending rate. In May 2010, the Ministry of Housing and Urban-Rural Development (the “MOHURD,” previously the Ministry of Construction), PBOC and the CBRC jointly issued a circular to clarify that the number of residential properties owned by an individual property purchaser who is applying for mortgage loans shall be determined by taking into account all residential properties owned by the family members of such purchaser (including the purchaser and such purchaser’s spouse and children under the age of 18), and that property purchasers of second or subsequent residential properties shall be subject to different credit terms when applying for mortgage loans. According to a notice jointly issued by PBOC and CBRC on September 29, 2010, the minimum down payment has been raised to 30% for all first home purchases, and commercial banks are required to suspend mortgage loans for purchases of a customer’s third or subsequent residential properties. In November 2010, MOHURD, the Ministry of Finance and PBOC jointly issued a notice, which set a separate minimum down payment of 20% on the first homes with a GFA of no more than 90 sq.m. for the purchasers using housing provident fund loans. In January 2011, the State Council issued a circular to further raise the minimum down payment for second home purchases to 60%. See “Regulation — Loan for Real Estate and Measures on Stabilizing Housing Price.” In addition, pursuant to the guidance issued by CBRC in August 2004, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower’s monthly income or if the total debt service of the individual borrower would exceed 55% of such individual’s monthly income. In February 2013, the State Council issued a notice to control the market of real property by allowing local branches of PBOC located in cities with a rapid rise of housing price to further increase the down payment ratio and mortgage loan interest rates for second home purchasers. A notice jointly issued by the PBOC, the CBRC and the MOHURD in March 2015 lowered the minimum down payment ratio to 40% for a second home purchaser with existing mortgage loans applying for a new mortgage loan for the second home. In August 2015, the Ministry of Finance and the PBOC jointly issued a notice to lower the down payment ratio from 30% to 20% for the second home purchaser who has paid off the housing provident fund loan for the first home and is applying for a new housing provident fund loan to purchase a second home for improving current living conditions of such purchaser. In February 2016, the PBOC and CBRC jointly issued a notice, which provides that, in cities where housing purchase restriction is not implemented, the minimum down payment ratio shall generally be 25% for first home purchasers with commercial individual housing loans, which may be further decreased by 5% by local governments, and the minimum down payment ratio shall not be less than 30% for second home purchasers with existing mortgage loans applying for another commercial individual housing loan. Since 2015, although the PRC banks have become more flexible in dealing with mortgage lending in the cities without housing purchase restriction, the mortgage lending in cities where housing purchase restriction being imposed is still under strict control in general. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, results of operations and financial condition may be materially and adversely affected.

Intensified competition may materially and adversely affect our business, results of operations and financial condition

Competition within the PRC real estate industry is intense. Domestic and overseas property developers have also entered the property development markets in cities where we have operations.

Many of them may have more financial, marketing, technical or other resources than us. Competition among property developers may cause an increase in land premium and raw material costs, shortages in quality construction contractors, surplus in property supply leading to decreasing property prices, further delays in issuance of governmental approvals, and higher costs to attract or retain skilled employees. If we fail to compete effectively, our business, results of operations and financial condition materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Most of our assets and operations are in the PRC, and substantially all of our revenue is derived from our operations in the PRC. Accordingly, our future business, results of operations, financial condition and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

Political and economic policies of the PRC government may affect our business and results of operations and may result in our inability to sustain our growth and expansion strategies

The PRC economy has largely been a centrally planned economy, which differs from other developed economies of the world in many respects, including:

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

The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy and is continuing to play a significant role in regulating industries by imposing industrial policies.

We cannot, however, predict whether changes in the political, economic and social conditions and policies in the PRC, or in the relevant laws and regulations, will have any material adverse effect on our current or future business, results of operations, financial condition and prospects.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. The PRC government has recently articulated the need to control economic growth, and to limit inflation. The PRC government implemented a series of macro-economic policies which included raising the benchmark interest rates, increasing the PBOC statutory deposit reserve ratio and imposing commercial bank lending guidelines that had the effect of restricting loans to certain industries. Certain of these macro-economic policies and stricter lending policies in the PRC may have a material adverse effect on our results of operations, financial condition and our ability to obtain financing, thus reducing our ability to implement our expansion strategies. We cannot assure

you that the PRC government will not implement any additional measures to tighten lending, or that, if any such measure is implemented, it will not have a material adverse effect on our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

A slowdown of the PRC economy may slow down our growth and may affect our business

The PRC economy has recorded one of the world's fastest growth rates in terms of GDP. However, we cannot assure you that such growth will sustain and continue in the future. In addition, a slowdown in the economies of the United States, the European Union and certain Asian nations with which the PRC has important trade relationships or any future calamities may materially and adversely affect the economic growth of the PRC. If the PRC economy experiences a significant downturn, our business, results of operations, financial condition and prospects may be materially and adversely affected.

In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. 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.

Rapid economic growth can lead to growth in money supply and inflation. If prices of our properties rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and operating results may be materially and adversely affected. To control inflation in the past, the PRC government has imposed control on bank credits, limits on loans for fixed assets and restrictions on State bank lending. Such an austerity measure can lead to a slowdown in the economic growth and may materially and adversely affect our business, results of operation and financial condition.

The global financial markets have experienced significant deterioration and volatility, which have negatively affected the global economy. Any further downturn may adversely affect our results of operations and financial condition

The global financial markets have been affected by a general slowdown of economic growth globally, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. Since 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas financial markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. More recently, 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"). A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union's free trade and similar agreements. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the UK, the EU and globally. This event

has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms. Furthermore, the United States and China have recently been involved in controversy over trade barriers that have threatened a trade war between the countries. From April 2018, the United States imposed tariffs on steel and aluminum imports from China, and later on July 6, 2018, the United States imposed 25% tariffs on US\$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. On September 18, 2018, President Donald Trump imposed 10% tariffs on approximately US\$200 billion worth of Chinese goods and plans to further increase the rate to 25% in January 2019. In return, the PRC responded with tariffs on US\$60 billion of U.S. goods. The rhetoric surrounding the trade war continues to escalate and neither side has been willing to resume stalled trade negotiations. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the PRC real estate industry uncertain. Should the trade war between the United States and the PRC begin to materially impact the PRC economy, the purchasing power of our customers in the PRC would be negatively affected. Any severe or prolonged slowdown or instability in the global or China's economy may materially and adversely affect our business, financial condition and results of operations.

Should there be a further economic downturn or credit crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continued access to funds to become more expensive, which would adversely affect our business, liquidity, financial condition, results of operations, and most importantly, our property development projects. As such, we cannot assure you that our business operations will not suffer further adverse effects caused by the previous or future credit crisis in the near future.

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

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

However, given that these laws, regulations and rules have not been fully developed, limited volumes of published cases are available and the cases are non-binding in nature, there is some degree of uncertainty in the interpretation and enforcement of these laws, regulations and rules, which in turn creates uncertainty as to the outcome of any legal action that may be taken against us in the PRC. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors.

In addition, the PRC legal system is based, in part, on governmental policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. We may also be deemed to have violated certain policies or rules for the actions of our counterparties in various transactions even if we are not aware of whether our counterparties are acting in compliance with applicable PRC laws and regulations. Accordingly, we may not be aware of any actual or deemed violations of such policies and rules until some time after such violations have taken place. Furthermore, any litigation we undertake in the PRC, regardless of its outcome, may be protracted and result in substantial costs to us and diversion of both our resources and management attention.

Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our business and results of operations and our ability to remit dividends

Our revenue and expenditure are principally denominated in Renminbi, which is currently not a freely convertible currency. We do not have a formal hedging policy and have entered into a foreign currency exchange contract to hedge our currency risk. We import certain materials for the production of some of our products. In addition, we will require foreign currencies for dividend payment (if any) to our shareholders. As a result, we are exposed to foreign currency fluctuations.

In the PRC, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and further widened to 2.0% on March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24.5% from July 21, 2005 to June 30, 2016. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. Any appreciation of Renminbi may result in the decrease in the value of foreign currency-denominated assets. Conversely, any depreciation of Renminbi may adversely affect our business, results of operations and financial condition.

Capital account transactions in foreign currencies are subject to significant exchange controls and generally require the approval of PRC government authorities, including SAFE. Under the existing PRC foreign exchange regulations, by complying with certain procedural requirements, we will be able to pay dividends (if any) in foreign currencies without prior approval from SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account transactions under certain circumstances. In this case, we may not be able to pay dividends in foreign currencies to our shareholders.

We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and may result in PRC withholding taxes on interest we pay on the Notes and PRC tax on gains from the transfer of the Notes

Under the Enterprise Income Tax Law (企業所得稅法) (the “EIT Law”) which took effect on January 1, 2008 and was recently amended on December 29, 2018, and its implementation rules, enterprises established outside the PRC whose “*de facto* management bodies” are located in China are considered “resident enterprises” for PRC tax purposes. The implementation rules define the term “*de*

facto management body” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “*de facto* management bodies” for foreign enterprises that are controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the “*de facto* management bodies” for foreign enterprises that are not controlled by PRC enterprises (including companies like ourselves).

We are a Cayman Islands holding company and we hold our shareholders’ meetings and board meetings outside the PRC and keep our shareholders’ list outside the PRC. However, most of our directors and senior management are currently based inside the PRC and we keep our books of account inside the PRC. The above elements may be relevant for the tax authorities in determining whether we are a PRC resident enterprise for tax purposes. However, there is no clear standard published by the tax authorities for making such a determination.

Although it is unclear under PRC tax law whether we have a “*de facto* management body” located in the PRC for PRC tax purposes, we currently take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for EIT Law purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. Furthermore, we may be obligated to withhold PRC income tax at a rate of 10% on payments of interest and redemption premium on the Notes to investors that are non-resident enterprises because the interest and redemption premium may be regarded as being derived from sources within the PRC. In the case of individual holders of Notes, the tax may be withheld at a rate of 20%. Further, if we were treated as a PRC resident enterprise, any gain realized by a non-resident enterprise investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC tax in the case of non-resident enterprises or 20% in the case of non-resident individuals. These rates may be reduced by an applicable tax treaty. For example, non-resident enterprise investors located in Hong Kong may qualify for tax on payments of interest and redemption premium under the Notes at a rate of 7% pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

If we are required to withhold PRC tax on interest payable to our foreign noteholders that are “non-resident enterprises,” we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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 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)》 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 will be increased from 5% (the applicable business tax rate prior to May 1, 2016 and the applicable VAT rate for sale of “old projects,” i.e. real property the construction of which commenced prior to 1 May 2016) to 10%. 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.

It may be difficult to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC

Most of our management reside in the PRC and a significant portion of our assets and the assets of our management are located in the PRC. Accordingly, it may be difficult for you to effect service of process in connection with disputes brought in the courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in the BVI, the Cayman Islands and most other western countries. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Acts of God, acts of war, epidemics and other disasters could affect our business

Our business is subject to the general and social conditions in the PRC. Natural disasters, epidemics, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, results of operations and financial condition may be materially and adversely affected if these natural disasters occur.

Epidemics threaten people’s lives and may materially and adversely affect their livelihoods. The occurrence of an epidemic is beyond our control and there is no assurance that the outbreak of severe acute respiratory syndrome, avian flu or the human swine flu will not happen again. Any epidemic occurring in areas in which we operate, or even in areas in which we do not operate, may materially and adversely affect our business, results of operations and financial condition.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, facilities, markets, suppliers and customers, any of which may materially and adversely affect our revenue, cost of sales, results of operations, financial condition or share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

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. The Notes will not be guaranteed by any current or future PRC subsidiaries or by certain other Non-Guarantor Subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries and other Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our PRC subsidiaries.

Creditors, including trade creditors of our Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2018 our Non-Guarantor Subsidiaries had bank and other borrowings in the amount of RMB4,948.4 million (US\$719.7 million) and capital commitments and contingent liabilities arising from guarantees of approximately RMB6,461.8 million (US\$939.8 million) and RMB5,932.8 million (US\$862.9 million), respectively. See the section entitled "Description of Other Material Indebtedness." The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantor (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes (other than the Collateral).

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to, or a purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are 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. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

We have substantial indebtedness, including indebtedness that will mature within one year, and we may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations in a timely manner

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2016, 2017 and 2018, our total outstanding bank and other

borrowings amounted to RMB2,774.0 million, RMB5,620.5 million and RMB7,539.7 million (US\$1,096.6 million), respectively. Subsequent to December 31, 2018, we also issued the January 2019 Notes and entered into the 2019 HSB Syndicated Facility. For details, please refer to “Description of Other Material Indebtedness.”

As of December 31, 2018, we had borrowings amounting to RMB6,146.9 million (US\$894.0 million) repayable within one year, which were significantly higher than those as of December 31, 2017. Our indebtedness under the August 1 2018 Notes will be due in 2019 and our indebtedness under the August 29 2018 Notes and the January 2019 Notes will be due in 2020. See “Description of Other Material Indebtedness” for more details. As a result, we are facing a high level of refinancing risk, as we are under heightened time pressure to refinance maturing borrowers. There can be no assurance that we would be able to refinance our indebtedness (in particular, our indebtedness due in 2019) in a timely manner on acceptable terms or at all. This risk is exacerbated by the volatility that the global capital or credit markets have experienced.

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Notes, our ability to incur additional debt is subject to the 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 covenants could be substantially larger when compared to other similarly situated PRC issuers whose covenants do not typically include such gains in the definition of Consolidated Net Income. As a result, our ability to incur additional debt under the Fixed Charge Coverage Ratio could be substantially larger when compared to such other issuers. In addition, because our definition of Consolidated Interest Expense excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense has become payable 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 typically include such interest expense in the calculation of their respective 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 we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. Please refer to the sections headed “Description of the Notes — Certain Covenants” and “Description of the Notes — Definitions” in this offering memorandum for further details.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the specific 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 the section entitled “Description of Other Material Indebtedness.” Such restrictions in the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries and any dividends from such subsidiaries may not qualify for reduced treaty rates

As a holding company, we depend on the receipt of dividends and interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our debt obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In particular, one of our PRC subsidiaries is a party to bank loan agreement that restricts its ability to pay dividends. See the section entitled “Description of Other Material Indebtedness.” In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity would not be available to us to make payments on the Notes. Further, certain loan agreements and secured trust financing agreements obtained or to be obtained by our PRC subsidiaries from lender banks and trust companies in the PRC may contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. These restrictions could reduce the dividends and advances 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).

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS and HKAS 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 the board of directors.

In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless such non-PRC parent companies are held to be PRC resident enterprises by relevant tax authorities, which shall be exempt from enterprise income tax for their direct equity investments in other PRC resident enterprises, or there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region 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》) (the “Hong Kong Tax Treaty”), our Hong Kong subsidiaries, directly holding 25% or more equity interest in a PRC subsidiary at the time of the distribution, may be subject to withholding tax at a rate of 5% on dividends received from such PRC subsidiary. However, according to the Circular in Relation to the Understanding and Determination of “Beneficial Owners” in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》) issued by the PRC State Administration of Taxation on October 27, 2009 (“Circular 601”), tax treaty benefits will be denied to “conduit” or shell companies without substantive business activities. It is unclear whether Circular 601 applies to dividends from our PRC operating subsidiaries paid to us through our Hong Kong subsidiaries. It is possible, however, that under Circular 601, our Hong Kong subsidiaries would not be considered as the “beneficial owners” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty, in which case our results of operations and financial position would be materially and adversely affected. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet our payment obligations under the Notes or to satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be), and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders’ loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders’ loans.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be). Any limitation on the ability of our PRC subsidiaries to pay dividends to us may also materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses or otherwise fund and conduct our business.

Our transfer of funds into the PRC to finance our development projects is subject to approval by the PRC Government and, as a result, the use of our net proceeds from the offering of the Notes as disclosed may be delayed

The PRC Government has implemented a series of rules and measures to control the inflow of foreign funds into the property development industry or for property speculation. The transfer of our net proceeds from the offering of the Notes into the PRC is subject to such PRC government control measures.

According to Measures for the Administration of Foreign Debt Registration (《外債登記管理辦法》) (“Notice No. 19”) issued by SAFE on April 28, 2013 which took effect on May 13, 2013, local branches of SAFE shall not register any foreign debt of a Foreign-Invested Real Estates Enterprises (the “FIREE”) if it obtained approval certificate from competent commercial departments and filed with MOFCOM on or after June 1, 2007. It restricts the ability of FIREE to raise funds offshore by structuring the funds as a shareholder loan to the property development companies in the PRC. Instead, in most circumstances such companies have to structure the funds from offshore as an equity investment and obtain the funds through an increase of their registered capital or the establishment of new FIREE.

On May 23, 2007, MOFCOM and SAFE jointly promulgated the Notice on Further Reinforcing and Regulating the Approval and Supervision on Foreign Direct Investment in the Real Estate Industry (《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 provides that, among things, before any foreign-invested enterprise engaging in real estate development or operations or any FIREE engaging in new real estate project developments, approvals from relevant PRC authorities shall be obtained. On June 18, 2008, MOFCOM issued the Circular on Better Implementation of the Filing of Foreign Investment in the Real Estate Industry (《商務部關於做好外商投資房地產業備案工作的通知》), pursuant to which MOFCOM has delegated the task of verifying filing documents to its provincial agencies. 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, the local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management. On June 24, 2014, MOFCOM and SAFE jointly issued the Notice on Improving the Registration of Foreign Investment in Real Estate (《關於改進外商投資房地產業備案工作的通知》) to simplify the procedures of registration of foreign investment in real estate. And the MOFCOM and SAFE jointly issued the Circular on Further Improving the Record-filing for Foreign Investments in Real Estate (《關於進一步改進外商投資房地產業備案工作的通知》) on November 6, 2015, cancelling the online record filing-procedure maintained by MOFCOM, and allowing local branches of MOFCOM to approve the establishment and modification of FIREEs as they did to other foreign-invested enterprises.

Pursuant to the above notices, we are required to register and apply for approvals from relevant PRC governmental authorities if we plan to expand the scope of our business or the scale of our operations, engage in new real estate project developments or operations or increase the registered capital of our subsidiaries or associated project companies in the PRC in the future. Our net proceeds from the offering of the Notes will primarily be used to refinance certain existing indebtedness and for other general corporate purposes. The injection of funds by any of such means is subject to the registration and approval requirements as mentioned above. As a result, we must register and apply for approval with the relevant PRC governmental authorities, and wait till the requested approvals are completed before we may transfer the proceeds from the offering of the Notes into the PRC for the intended uses in the PRC.

In addition, any capital contributions or loans that we, as an offshore company, make to our PRC operating subsidiaries, including from the proceeds of the offering of the Notes, are subject to other foreign investment regulations in the PRC. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total investment amount that our PRC subsidiaries are approved to make under the relevant PRC laws and regulations, and their respective registered capital, and must be registered with or approved by the local branches of SAFE.

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

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and further widened to 2.0% in March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24.5% from July 21, 2005 to June 30, 2016. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes and other indebtedness denominated in foreign currencies.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. 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 their affiliates may enter into such hedging agreements permitted under the Indenture, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging

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

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

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

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

In addition, the definition of Change of Control for purposes of the Indenture 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. The definition of Change of Control for purposes of the Indenture also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

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

In light of land prices, the capital intensive nature of land acquisitions, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing properties jointly with other 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 governing the Notes. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or joint ventures, these restrictions are subject to important exceptions and qualifications. See the section entitled "Limitation on Restricted Payments" and the definition of "Permitted Investment" in "Description of the Notes."

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

We pay dividends to our shareholders or redeem our common stock from time to time. Under the Indenture, any such dividend payment or repurchase will be a “Restricted Payment,” which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio. However, such restriction is subject to important exceptions and qualifications. Under the terms of the Notes, we may pay dividends on our common stock or redeem our common stock in an aggregate amount up to 20% 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.

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

The insolvency laws of the Cayman Islands and the PRC and other local insolvency laws applicable to us may differ from those of any other jurisdiction with which holders of the Notes are 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 the laws of the United States or other jurisdictions with which holders of the Notes are familiar. 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 are familiar.

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

We may be unable to obtain and remit foreign exchange

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

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

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

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

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability 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, merger, restructuring or changes in shareholding in subsidiaries.

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. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See the section entitled "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Issuer may be lowered or withdrawn in the future

The Issuer has been assigned a rating of B by Standard & Poor's Ratings Services and B by Fitch Ratings Ltd. The Notes are expected to be rated B by Standard & Poor's and B by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or they will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant (such circumstances include, for example, if we or our Restricted Subsidiaries were to incur substantial additional indebtedness to the extent permitted under the Indenture). 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 ratings assigned to the Issuer or the Notes may adversely affect the market price of the Notes.

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

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

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and

- (a) any holder (or any Affiliate of such holder) of 10% or more of shares of the Company; or
- (b) any Affiliate of the Company, on the other hand.

As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

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

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals 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.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of an investment in the Notes in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisors, whether it: (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this offering memorandum; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the currency in which the potential investor’s financial activities are principally denominated; (iv) understands thoroughly the terms of the Notes and is familiar with the behavior of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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 differs in certain significant respects from GAAP in other jurisdictions, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated

financial statements and related footnotes between HKFRS and other GAAP. You should consult your own professional advisors for an understanding of the differences between HKFRS and other GAAP and how those differences might affect the financial information contained in this offering memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, and such standards may be different from those applicable to debt securities listed in certain other countries

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

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

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

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

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

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES (IF ANY) 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. No future subsidiaries that are organized under the laws of the PRC, Exempted Subsidiaries or Listed Subsidiaries (each term as defined in the “Description of the Notes”) will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. In addition, certain of our offshore subsidiaries will not be required to guarantee the Notes if the consolidated assets of these subsidiaries (other than the 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 our PRC subsidiaries and other Non-Guarantor Subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries and other Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. 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 financial obligations under the Notes if we are unable to do so.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to, or purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are 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. 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.

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 Collateral Agent. 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 Collateral Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

The Collateral is shared on a *pari passu* basis by the holders of the Notes, the Existing Pari Passu Secured Indebtedness (as defined in the “Description of the Notes”) and any other creditors with respect to Permitted Pari Passu Secured Indebtedness. In addition, 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 the section entitled “Description of the Notes — Security — Permitted Pari Passu Secured Indebtedness” for a further discussion of the sharing of the Collateral with creditors under future financings. If creditors under future financings opt to share the Collateral under an intercreditor agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the claims of the holders of the Notes, which could have a material adverse effect on their ability to recover sufficient proceeds to satisfy their claims under the Notes.

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

The Collateral Agent is required to take action to enforce the Collateral in accordance with the instructions of the holders of the Notes and the holders (or representatives or agents) of other Permitted Pari Passu Secured Indebtedness, given under and in accordance with the Intercreditor Agreement. Any enforcement action taken by the Collateral Agent will adversely affect the Company’s entitlement to receive distributions from the Collateral, which will, in turn, have an adverse impact on the Company’s ability to fulfill its payment obligations under the Notes. Further, the Subsidiary Guarantors’ or the JV Subsidiary Guarantors’ ability to pay under the Subsidiary Guarantees or the JV Subsidiary Guarantees will be adversely affected. The ability of holders of the Notes to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Collateral Agent is permitted to take enforcement actions. If an event of default occurs under the Notes, the holders of the Notes holding 25% of the outstanding amount of the Notes and the holders of other Permitted Pari Passu Secured Indebtedness may decide whether to take any enforcement action and may thereafter, through their respective trustee, representative or agent, in accordance with the Intercreditor Agreement, instruct the Collateral Agent to take enforcement action against the Collateral. By virtue of the instructions given to the Collateral Agent described above, actions that may be taken in respect of the Collateral may be adverse to holders of the Notes. In such event, the only remedy available to holders of the Notes would be to sue for payment under the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

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

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

Under bankruptcy laws, fraudulent transfer laws, 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 or JV Subsidiary Guarantors (if any) incorporated in the BVI:

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

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) 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 (if any). 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 (if any) 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 (if any) without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor (if any), voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee or JV Subsidiary Guarantee (if any), subordinated such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor (if any) or held the Subsidiary Guarantee or JV Subsidiary Guarantee (if any) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor (if any) based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would 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 and the BVI if the creation of the pledge takes place at any time within six months prior to the onset of insolvency or, under some circumstances, within a longer period. Pledges of shares of future 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 may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.”

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us and the Subsidiary Guarantor Pledgors.

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

The Collateral will consist only of the shares of the 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 Collateral Agent 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 Collateral Agent, the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By their nature, some or all of the Collateral, in particular, the shares of the existing or any future 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 is shared on a *pari passu* basis by the holders of the Notes, the Existing *Pari Passu* Secured Indebtedness (as defined in the “Description of the Notes”) and any other creditors with respect to Permitted *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. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or additional Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the Intercreditor Agreement.

The pledge of certain Collateral may be released under certain circumstances

If we dispose of not less than 20% of the shares of a Subsidiary Guarantor, the Subsidiary Guarantees provided by such Subsidiary Guarantor and its subsidiaries, and the Collateral comprising the shares of these companies, may be released if the consolidated assets of our non-PRC subsidiaries (other than Exempted Subsidiaries and the Listed Subsidiaries) that do not guarantee the Notes do not account for more than 20% of our total assets immediately following such release. In addition, 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 would be subject to increased risks.

EXCHANGE RATE INFORMATION

China

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by the 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, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012. From July 21, 2005 to December 31, 2013, the value of the Renminbi appreciated by approximately 26.9% against the U.S. dollar. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Center, 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 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 for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Exchange Rate			
	Period End	Average ⁽¹⁾	High	Low
	<i>(RMB per US\$1.00)</i>			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1740	6.2591	6.0402
2015	6.4778	6.2896	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7564	6.9575	6.4773
2018	6.8755	6.6079	6.9737	6.2649
October	6.9737	6.9191	6.9337	6.8270
November	6.9558	6.9367	6.9558	6.8894
December	6.8755	6.8839	6.9077	6.8343
2019				
January	6.6958	6.7863	6.8708	6.6958
February	6.6912	6.7367	6.7907	6.6822
March	6.7112	6.7119	6.7381	6.6916
April (through April 12)	6.7039	6.7142	6.7223	6.7039

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. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

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

Period	Exchange Rate			
	Period End	Average ⁽¹⁾	High	Low
	<i>(HK\$ per US\$1.00)</i>			
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7949	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
October	7.8393	7.8375	7.8433	7.8260
November	7.8244	7.8266	7.8365	7.8205
December	7.8305	7.8187	7.8321	7.8043
2019				
January	7.8463	7.8411	7.8463	7.8308
February	7.8496	7.8477	7.8486	7.8460
March	7.8498	7.8492	7.8499	7.8466
April (through April 12)	7.8427	7.8458	7.8497	7.8368

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.

USE OF PROCEEDS

We plan to use the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$176.0 million, which we plan to refinance certain of our existing indebtedness and for other general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes — Definitions”).

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the January 2019 Notes and the issuance of the Notes in this offering, after deducting the concession and other estimated expenses payable by us in connection therewith. The following table should be read in conjunction with the selected consolidated financial information and the audited or reviewed consolidated financial statements and related notes included in this offering memorandum.

	As of December 31, 2018			
	Actual		As adjusted	
	(RMB)	(US\$)	(RMB)	(US\$)
	<i>(in thousands)</i>			
Cash and cash equivalents⁽¹⁾	5,678,863	825,956	8,587,200	1,248,956
Short-term borrowings				
Current bank and other borrowings,				
secured	3,989,708	580,279	3,989,708	580,279
The February 2018 Notes ⁽²⁾	2,048,688	297,969	2,048,688	297,969
August 1 2018 Notes	108,534	15,786	108,534	15,786
January 2019 Notes	—	—	1,698,249	247,000
Total short-term borrowings	6,146,930	894,034	7,845,179	1,141,034
Long-term borrowings:⁽³⁾				
Long-term bank and other borrowings,				
secured	3,549,978	516,323	3,549,978	516,323
The August 29 2018 Notes	1,362,773	198,207	1,362,773	198,207
Notes to be issued	—	—	1,210,088	176,000
Total long-term borrowings	4,912,751	714,530	6,122,839	890,530
Total equity	6,665,418	969,445	6,665,418	969,445
Total capitalization⁽⁴⁾	11,578,169	1,683,975	12,788,257	1,859,975

Notes:

- (1) Cash and cash equivalents excludes restricted cash of RMB2,186.1 million (US\$318.0 million).
- (2) The February 2018 Notes have become matured and been fully repaid.
- (3) Our long-term borrowings does not include capital and other commitments. As of December 31, 2018, our consolidated capital and other commitments were RMB5,764.5 million (US\$838.4 million) and we had RMB5,932.8 million (US\$862.9 million) of guarantees on mortgage facilities for certain purchasers of our properties. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness and Contingent Liabilities — Contractual Obligations” and “— Contingent Liabilities.”
- (4) Total capitalization equals total long-term borrowings plus total equity.

We have, since December 31, 2018, in the ordinary course of business, entered into additional financial arrangements including, among others, the 2019 HSB Syndicated Facility, to finance our property development and for general corporate purposes. As of April 17, 2019, our total borrowings were approximately RMB12,820.5 million (US\$1,864.7 million). These additional borrowings are not reflected in the table above.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization and indebtedness since December 31, 2018.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected consolidated financial and other data. The consolidated financial statements of Group as of and for the years ended December 31, 2017 and 2018 were audited by its independent auditor, PricewaterhouseCoopers, Hong Kong Certified Public Accountants. The 2016 financial information, as contained therein, was restated to reflect the change in accounting policy with effect from January 1, 2017 when the Group changed its valuation model of investment property from the cost model to the fair value model, as the Directors of the Company considered that the change provides reliable and more relevant information to users of the financial statements.

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

The HKFRS 9 model introduces, among other things, an expected loss impairment model. HKFRS 15 is based on the principle that the revenue is recognized when control of a good or service transfers to a customer.

According to the HKFRS 9 and 15 transitional arrangements, upon initial application of HKFRS 9 and 15, the Group is not required to restate the comparative figures of the prior period. Instead, differences caused by the adoption of the HKFRS 9 and 15 are adjusted in the beginning balance of retained earnings and other comprehensive income. **As such, investors should exercise caution when reviewing our financial statements as of, and for the year ended December 31, 2018.**

Our financial statements for the years ended December 31, 2016, 2017 and 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and its consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Income Statement and Other Financial Data

	Year Ended December 31,			
	2016	2017	2018	
	(RMB) (Restated)	(RMB)	(RMB)	(US\$) (unaudited)
	(in thousands)			
Revenue	5,270,090	6,734,067	6,735,931	979,701
Cost of sales	(4,184,751)	(5,057,627)	(4,348,211)	(632,421)
Gross profit	1,085,339	1,676,440	2,387,720	347,280
Other gains/(losses), net.	171,237	(15,803)	248,469	36,138
Selling and marketing expenses	(146,611)	(195,475)	(183,499)	(26,689)
General and administrative expenses	(164,767)	(233,450)	(424,221)	(61,700)
Fair value gain on an investment property	—	359,036	84,172	12,242
Impairment of goodwill	—	(49,535)	—	—
Operating profit	945,198	1,541,213	2,112,641	307,271
Finance income	15,302	44,729	95,025	13,821
Finance costs	(6,364)	(70,945)	(71,662)	(10,423)
Finance income, net	8,938	(26,216)	23,363	3,398
Share of profit of investments accounted for using the equity method	6,612	82,870	77,468	11,267
Profit before income tax	960,748	1,597,867	2,213,472	321,936
Income tax expense	(405,983)	(607,735)	(917,044)	(133,379)
Profit for the year	554,765	990,132	1,296,428	188,557
Profit attributable to:				
Owners of the company	450,756	862,237	990,747	144,098
Non-controlling interests	104,009	127,895	305,681	44,459
	<u>554,765</u>	<u>990,132</u>	<u>1,296,428</u>	<u>188,557</u>
Other financial data (unaudited)				
EBITDA ⁽¹⁾	1,041,556	2,022,083	2,183,851	317,628
EBITDA margin ⁽²⁾	19.76%	30.03%	32.42%	32.42%

Notes:

- (1) EBITDA for any period consists of profit before tax less other losses or gains, and share of profit or loss of investments accounted for using the equity method and interest income, plus finance costs, capitalized interest included in cost of sales, depreciation and amortization expenses and impairment of goodwill. 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 it believe it is a useful supplement to cash flow data as a measure of its performance and its 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 its profit for the year under HKFRS to its 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.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Selected Consolidated Balance Sheet

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
		(in thousands)		
ASSETS				
Non-current assets				
Property, plant and equipment	31,423	36,489	221,300	32,187
Investment property	—	434,669	803,899	116,922
Goodwill	49,535	—	—	—
Investments accounted for using the equity method	374,432	1,034,521	700,294	101,854
Trade and other receivables, deposits and prepayments	—	475,236	60,000	8,727
Deferred income tax assets	219,133	238,931	459,833	66,880
	<u>674,523</u>	<u>2,219,846</u>	<u>2,245,326</u>	<u>326,570</u>
Current assets				
Completed properties held for sale	1,972,481	1,564,092	2,133,818	310,351
Properties under development for sale	5,717,924	5,728,454	15,680,128	2,280,580
Contract assets	—	—	700,000	101,811
Trade and other receivables and deposits	1,561,436	3,082,594	3,371,544	490,371
Prepayments	589,204	964,113	1,053,610	153,241
Amounts due from joint ventures	113,984	53,123	4,844	705
Amount due from an associate	3,479	32,719	364,871	53,068
Amounts due from non-controlling interests	463,439	672,675	1,414,342	205,708
Income tax recoverable	154,762	180,948	312,821	45,498
Restricted cash	1,186,255	1,318,450	2,186,139	317,961
Cash and cash equivalents	2,417,219	3,587,062	5,678,863	825,956
	<u>14,180,183</u>	<u>17,184,230</u>	<u>32,900,980</u>	<u>4,785,250</u>
Assets classified as held for sale	—	467,931	—	—
Total assets	<u>14,854,706</u>	<u>19,872,007</u>	<u>35,146,306</u>	<u>5,111,820</u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	139,632	139,632	139,632	20,309
Reserves	2,710,245	3,672,089	4,237,813	616,364
	<u>2,849,877</u>	<u>3,811,721</u>	<u>4,377,445</u>	<u>636,673</u>
Non-controlling interests	<u>555,158</u>	<u>797,579</u>	<u>2,287,973</u>	<u>332,772</u>
Total equity	<u>3,405,035</u>	<u>4,609,300</u>	<u>6,665,418</u>	<u>969,445</u>
LIABILITIES				
Non-current liabilities				
Borrowings, secured	3,319,532	3,982,100	4,912,751	714,530
Deferred income tax liabilities	142,610	265,604	286,051	41,604
	<u>3,462,142</u>	<u>4,247,704</u>	<u>5,198,802</u>	<u>756,134</u>
Current liabilities				
Trade and other payables	2,224,538	2,156,112	6,323,532	919,720
Borrowings, secured	309,700	3,261,119	6,146,930	894,034
Amount due to an associate	—	—	66,000	9,599
Amounts due to non-controlling interests	451,308	116,414	2,123,659	308,873
Amount due to a joint venture	65,663	140,209	23,756	3,455
Contract Liabilities	—	—	7,169,457	1,042,754
Receipts in advance	4,235,821	4,507,441	—	—
Income tax liabilities	700,499	832,164	1,428,752	207,806
	<u>7,987,529</u>	<u>11,013,459</u>	<u>23,282,086</u>	<u>3,386,241</u>
Liabilities directly associated with assets classified as held for sale	—	1,544	—	—
	<u>7,987,529</u>	<u>11,015,003</u>	<u>23,282,086</u>	<u>3,386,241</u>
Total liabilities	<u>11,449,671</u>	<u>15,262,707</u>	<u>28,480,888</u>	<u>4,142,375</u>
Total equity and liabilities	<u>14,854,706</u>	<u>19,872,007</u>	<u>35,146,306</u>	<u>5,111,820</u>
Net current assets	<u>6,192,654</u>	<u>6,637,158</u>	<u>9,618,894</u>	<u>1,399,009</u>
Total assets less current liabilities	<u>6,867,177</u>	<u>8,857,004</u>	<u>11,864,220</u>	<u>1,725,579</u>

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 financial statements for the years ended December 31, 2016, 2017 and 2018 have been prepared and presented in accordance with HKFRS, which differ in certain material respects from generally accepted accounting principles in other jurisdictions. In this section of the offering memorandum, references to "2016", "2017" and "2018" are to our financial years ended December 31, 2016, 2017 and 2018, respectively.

OVERVIEW

We are an integrated residential and commercial property developer primarily focusing on residential property development in the PRC. We have successfully established our presence in a number of key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region, including Shenzhen, Zhongshan, Shanghai, Tianjin, Hefei, Nanchang, Jinan, Yantai and Xianyang.

We believe that we have successfully established the "Redco" brand in the cities where we have built our presence. In 2018, we were recognized as "2018 PRC Investment Value Real Estate Enterprise" (2018中國年度投資價值地產企業) by Guandian.cn (觀點地產新媒體). In 2017, we were recognized as "Top 100 Comprehensive Strength Listed Real Estate Enterprise of China for 2017" (2017年中國房地產上市公司綜合實力100強) by China Real Estate Association (中國房地產業協會). In 2016, the Group was recognized as "the Most Valuable Listed Real Estate Enterprise of China for 2016" (2016 中國最具價值地產上市企業) by Guandian.cn(觀點地產新媒體). In 2015, we were recognized as "2015 Top 10 Hong Kong Listed Domestic Developers Worthy of Investment" (2015中國大陸在港上市房地產公司投資價值TOP 10) by the Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院). In addition, our property projects have also received numerous awards from different organizations. Our Company has been selected as a constituent of the "Hang Seng Composite SmallCap Index of the Hang Seng Composite Index since September 4, 2017. We believe that becoming a constituent of the Hang Seng Family of Indexes represents the recognition of our business performance, stock liquidity and growth prospect by the market.

Since we commenced property development operations in 1995, we have successfully executed our multi-regional strategy and demonstrated a proven track record of success by developing in strategically selected cities that we believe possess high growth potential across the PRC. Subsequent to our initial success in Quanzhou, Fujian Province, we deliberately expanded and quickly replicated our success in strategically targeted key economic cities, including Shenzhen, Zhongshan, Shanghai, Tianjin, Hefei, Nanchang, Jinan, Yantai and Xianyang. We also established presence in Australia by jointly developing a residential community in Sydney with a recognized local developer. During the three years ended December 31, 2016, 2017 and 2018, we recognized revenue from property development and investment projects covering certain key economic cities in China. As of December 31, 2018, we had 56 property development and investment projects with an aggregate GFA of approximately 10.0 million sq.m.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our operating results and financial condition are based on our consolidated financial statements, which have been prepared in accordance with HKFRS or HKAS. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates. The assumptions and estimates we have used have been based on our industry experience and various factors including our management's expectations of future events which they believe to be reasonable. Actual results may differ from these estimates and assumptions. In 2016, 2017 and 2018, there were no significant changes in our assumptions and estimates, and we will continuously assess our assumptions and estimates going forward.

The selection of critical accounting policies, the estimates and judgments and other uncertainties affecting application of other policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our consolidated financial statements. We believe that the following critical accounting policies involved the most significant estimates and judgments in the preparation of our consolidated financial statements.

Revenue recognition

(a) Accounting policies applied since January 1, 2018

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties and services performed in the ordinary course of the Group's companies. We recognise revenue when control of goods or services transfers to the customers.

(i) Sales of properties and provision of services

Revenues are recognized when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the assets and services transfer 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 recognized at a point in time when the customer obtains control of the assets and services.

The progress towards complete satisfaction of the performance obligation is measured based on our 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 for each contract.

For property development and sales contract for which the control of the property is transferred at a point in time, revenue is recognized when the customer obtains the physical possession or the legal title of the completed property and we have presented right to payment and the collection of the consideration is probable.

In determining the transaction price, we adjust the promised amount of consideration for the effect of a financing component if it is significant.

For provision of construction services, our performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus we satisfy a performance obligation and recognizes revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

(ii) Sales of goods

Revenue are recognized when control of the product to has transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because the passage of time is required before the payment is due.

(b) Accounting policies applied for the years ended December 31, 2016 and 2017

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of discounts, returns and value added taxes.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Sale of properties

Revenue from sale of properties is recognized when the significant risks and rewards of the properties are transferred to the buyers, which is when the construction of the relevant properties have been completed, delivery of the properties have been completed pursuant to the sales agreements and collectability of related receivables pursuant to the sale agreements is reasonably assured. Deposits and instalments received on properties sold prior to transfer of the significant risks and rewards of the properties are included as receipt in advance under current liabilities.

(ii) Construction and sea reclamation service income

Revenue from construction and sea reclamation services based on the stage of completion of the construction.

(iii) Property management income

Revenue arising from property management is recognized in the accounting period in which the services are rendered.

(iv) Interest income

Interest income is recognized using the effective interest method.

Properties under development for sale and completed properties for sale

We include properties under development for sale and completed properties for sale in current assets at the lower of cost and net realizable value. Development cost of property comprises construction costs, depreciation of machinery and equipment, amortization of land use rights, borrowing costs on qualifying assets and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Car parks planned for civil air defense projects are accounted for as properties under development for sale or completed properties for sale, as appropriate.

Net realizable value takes into account the price ultimately expected to be realized, less applicable variable selling expenses and the anticipated costs to completion.

We classify properties under development for sale as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Development costs directly attributable to property development activities

We allocate land and development costs to properties under development for sale or completed properties held for sale, as appropriate. As certain of our property development projects are developed and completed by phases, the budgeted development costs of the whole project are dependent on the estimate on the outcome of total development. Based on our experience and the nature of the development undertaken, our management makes estimates and assumptions concerning the future events that are believed to be reasonable under the circumstances. Given the uncertainties involved in the property development activities, the related actual results may be higher or lower than the amount estimated at the end of the reporting period. Any change in estimates and assumptions would affect our operating performance in future years. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results in 2016, 2017 and 2018 and that it has consistently applied these estimates or underlying assumptions in 2016, 2017 and 2018.

Provision for impairment of properties held or under development for sale

Our management makes provision for impairment of properties held or under development for sale based on the estimate of the recoverable amount of the properties. Given the volatility of the property market in the PRC, the actual recoverable amount may be higher or lower than the estimate made as of the end of the reporting period. Any increase or decrease in the provision would affect our Group's operating performance in future years. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results in 2016, 2017 and 2018 and that we have consistently applied these estimates or underlying assumptions in 2016, 2017 and 2018.

Current taxation and deferred taxation

Our Group is subject to taxation in the PRC and Hong Kong. Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the income tax and deferred tax provisions in the periods in which such determination are made. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results in 2016, 2017 and 2018 and that we have consistently applied these of estimates or underlying assumptions in 2016, 2017 and 2018.

We recognize deferred tax assets relating to certain temporary differences and tax losses when our management considers that it is probable that future taxable profit would be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from our original estimate, such differences would impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

Land appreciation tax

Our Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of these taxes vary among various tax jurisdictions in cities of the PRC, and we have not finalized our land appreciation taxes calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation. We recognized these land appreciation taxes based on our management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences would impact the income tax expense and deferred income tax provisions in the periods in which such taxes have been finalized with local tax authorities. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results in 2016, 2017 and 2018 and that we have consistently applied these estimates or underlying assumptions in 2016, 2017 and 2018.

Impairment of financial assets

(a) Accounting policies applied since January 1, 2018

We have four types of financial assets at amortised cost and contract assets subject to HKFRS 9's new expected credit loss model:

- Trade receivables
- Other receivables and deposits (excluding prepayments)
- Amounts due from joint ventures, associates and non-controlling interests
- Other financial assets carried at amortised cost
- Contract assets

We assess on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For contract assets and trade receivables, we apply the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables and deposits (excluding prepayments), we apply a forward looking basis and the expected credit losses associated and adopted three-stages approach to assess the impairment.

(b) Accounting policies applied for the years ended December 31, 2016 and 2017

Assets carried at amortised cost

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that we use to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

We first assess whether objective evidence of impairment exists. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, we may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of profit or loss.

CERTAIN KEY ITEMS AFFECTING OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue represents income recognized from sales of properties, construction and sea reclamation services, project management services, trading of construction materials and healthcare service. In 2016, 2017 and 2018, we generated income primarily from developing and selling properties in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region. We expect that income from sales of properties will continue to account for substantially all of our revenue in the near future. Our revenue for any given period is largely dependent upon GFA delivered and the selling prices of the properties we deliver during such period. The GFA delivered for any given period is driven primarily by property development schedules. Average selling prices are primarily affected by market demand, the types and location of the properties and our costs of properties sold, including construction costs. Market demand and conditions of the PRC real estate industry change from period to period and are affected by the PRC's overall economy, including the purchasing power of consumers in the PRC and the resulting demand for properties. In 2016, 2017 and 2018, our GFA delivered and ASP and therefore our revenue fluctuated from period to period depending on the types, location and size of the projects as well as the stage of our property development projects' development.

Consistent with industry practice, we typically enter into sales contracts with purchasers while the properties are still under development but after satisfying the conditions for pre-sale in accordance with PRC laws and regulations. Please refer to the section headed "Business — Property development process — Sales and marketing — Pre-sale" in this offering memorandum for more details. Before the criteria for the recognition of sales of properties are met, payments received from purchasers are recorded as receipts in advance, which is included in current liabilities. Please refer to the section headed "— Critical Accounting Policies — Revenue recognition" in this offering memorandum for more details.

The following table sets out a breakdown of our revenue from external customers by business segment for the years indicated:

	For the year ended December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
	(in thousands)			
Sales of properties	5,155,966	6,324,976	6,419,117	933,622
Construction and sea reclamation services . . .	76,528	378,443	34,215	4,976
Property management services	37,596	—	—	—
Project management services	—	30,648	3,952	575
Trading of construction materials	—	—	277,946	40,426
Healthcare service	—	—	701	102
	<u>5,270,090</u>	<u>6,734,067</u>	<u>6,735,931</u>	<u>979,701</u>

The following table sets out a breakdown of our revenue from external customers by geographical region and their percentage of total revenue for the years indicated:

	For the year ended December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
	(in thousands)			
Greater Western Taiwan Straits				
Economic Zone	2,463,369	1,719,155	1,635,677	237,900
Central and Western Regions	500,499	2,731,163	602,983	87,700
Bohai Economic Rim	753,671	1,829,283	4,211,863	612,590
Pearl River Delta Region	1,514,955	449,731	3,510	511
Others	37,596	4,735	281,898	41,000
Total	<u>5,270,090</u>	<u>6,734,067</u>	<u>6,735,931</u>	<u>979,701</u>

Notes:

- (1) Primary land development represents the sea reclamation works in Tianjin.
- (2) Construction service represents the construction service provided by the Group in Jinan.

Cost of Sales

Cost of sales primarily consists of cost of properties sold, which represents costs directly associated with revenue from sales of properties recognized during the given period. For 2016, 2017 and 2018, cost of properties sold included construction costs, land acquisition costs and capitalized borrowing costs. Cost of sales also included business taxes and other levies.

The following table sets out information relating to our cost of sales for the years indicated:

	For the year ended December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(Restated)			(unaudited)
			(in thousands)	
Cost of properties sold				
Construction costs	1,787,205	2,599,277	2,750,512	400,045
Land acquisition costs	1,869,673	1,843,178	987,645	143,647
Capitalized borrowing costs	259,972	408,935	293,776	42,728
Sub-total	3,916,850	4,851,390	4,031,933	586,420
Cost of construction and sea reclamation service	53,760	97,768	34,085	4,957
Cost of property management service	29,037	—	—	—
Cost of project management service	—	1,217	334	49
Cost for construction material sold and healthcare service	—	—	247,975	36,067
Business taxes and surcharges	185,104	107,252	33,884	4,928
Total	4,184,751	5,057,627	4,348,211	632,421

The following table sets out an analysis of our cost of sales:

	For the year ended December 31,		
	2016	2017	2018
GFA delivered (sq.m.)	647,822	858,197	868,680
Average cost of properties sold per sq.m delivered (RMB) ⁽¹⁾	5,860	5,467	4,641
Average construction costs per sq.m. delivered (RMB) ⁽²⁾	2,911	3,003	3,166
Average land acquisition costs per sq.m delivered (RMB) ⁽³⁾	2,711	2,173	1,137
Average capitalized borrowing costs per sq.m delivered (RMB) ⁽⁴⁾	238	290	338

- (1) Average cost of properties sold per sq.m. delivered is derived by dividing cost of properties sold by GFA delivered.
- (2) Average construction costs per sq.m. delivered is derived by dividing construction costs of properties sold by GFA delivered.
- (3) Average land acquisition costs per sq.m. delivered is derived by dividing land acquisition costs of properties sold by GFA delivered.
- (4) Average capitalized borrowing costs per sq.m. delivered is derived by dividing total capitalized borrowing costs by GFA delivered.

Cost of properties sold

Cost of properties sold includes construction costs, land acquisition costs and capitalized borrowing costs. We recognize the cost of properties sold for a given period to the extent that revenue from such properties has been recognized in such period. Prior to their completion, properties under development are included in our consolidated balance sheets carried at the lower of cost and net realizable value.

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 cost of construction materials. Our construction costs are affected by a number of factors such as changes in construction labor costs and construction materials costs (particularly steel and cement), location and types of properties, choice of materials, landscaping and investments in ancillary facilities.

Land acquisition costs

Land acquisition costs represent costs relating to the acquisition of the rights to occupy, use and develop land, and primarily include land premiums incurred in connection with land grants from the PRC government or land obtained in the secondary market by transfer, cooperative arrangement, corporate acquisition or otherwise. Our land acquisition costs are influenced by a number of factors, including location of property development projects, timing of acquisitions and a project's plot ratios. Land acquisition costs 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. Our land acquisition costs are also subject to changes in PRC government policies and regulations.

For 2016, 2017 and 2018, our land acquisition costs included demolition and resettlement costs in connection with certain land that we acquired.

Capitalized borrowing costs

We capitalize a portion of its cost of bank borrowings (including interest expense) to the extent that such cost is directly attributable to the acquisition, construction or production of a particular property project. Fluctuations in the amount and timing of such capitalization from period to period may also affect our finance costs.

Gross Profit

Gross profit represents revenue less cost of sales.

Other gains/(losses), net

Other gains/(losses), net primarily represent gains/(losses) on disposal of property, plant and equipment, net exchange gains/(losses), gain on disposal of subsidiaries or other investments and gain on change in fair value of financial assets.

Selling and Marketing Expenses

Selling and marketing expenses primarily include marketing and advertising cost, employee benefit expenses for our selling and marketing personnel, office and travelling expenses and other selling and marketing expenses. Our selling and marketing expenses in a given period are affected by the number of new property development projects launched in that period.

General and Administrative Expenses

General and administrative expenses primarily include employee benefit expenses for our personnel (other than our selling and marketing personnel), auditor's remuneration, office and travelling expenses, entertainment expenses, land use and real estate tax and other miscellaneous expenses. The overall increase in our general and administrative expenses in 2016, 2017 and 2018 was generally consistent with the overall expansion of our scale of operations.

Impairment of Goodwill

Goodwill represents certain premium paid in connection with our acquisition of equity interests in certain subsidiaries which are engaged in property development and property management in the PRC. Goodwill represents the excess of consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries. The recoverable amount of all cash-generating units is determined based on value-in-use calculations. Impairment of goodwill is recognized when the carrying value of goodwill is in excess of our recoverable amount.

Finance Income

Finance income primarily consists of interest income from bank deposits and loans to an associate, non-controlling interests and a third party.

Finance Costs

Finance costs primarily consist of interest expense on borrowings less interest capitalized on qualifying assets and finance charges on early redemption of senior notes.

Share of profit of investments accounted for using the equity method

Share of profit of investments accounted for using the equity method represents share of (loss)/profit related to associates and joint ventures.

Income Tax Expense

Our income tax expense for a given year or period primarily includes EIT and LAT. Fluctuations in our effective tax rate from period to period are primarily due to changes in its LAT rates. For 2016, 2017 and 2018, our effective tax rate (calculated as income tax expense divided by profit before income tax) was 42.3%, 38.0% and 41.4%, respectively. As of December 31, 2018, we had paid or made provisions for paying all relevant taxes and did not have any disputes or unresolved issues with the relevant tax authorities.

Hong Kong Profits Tax

We have been subject to Hong Kong profits tax at a rate of 16.5% in 2016, 2017 and 2018. No provision for Hong Kong profits tax had been made during the same periods as we did not generate any assessable profits arising in Hong Kong.

EIT

Our subsidiaries are subject to EIT in China. Under the EIT Law and EIT Rules, the statutory tax rate for all of our PRC subsidiaries was 25.0% for 2016, 2017 and 2018.

LAT

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. All income from the 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 values do not exceed 20% of the total deductible items (as defined in the relevant tax laws). Sales of commercial properties are not eligible for such exemptions. Whether a property qualifies for the ordinary residential property exemption is determined by the local government. Historically, sales of higher end residential properties and commercial properties were generally assessed at higher appreciation values, and were therefore generally subject to higher LAT rates. On December 28, 2006, the SAT issued the Notice on the Settlement Management of Land Appreciation Tax on Real Estate Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知), which took effect on February 1, 2007. Such notice provides further clarifications to the settlement of LAT. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations. On May 12, 2009, the SAT issued the Regulations of Land Appreciation Tax Settlement Administration (土地增值稅清算管理規程) effective on June 1, 2009, which further clarify the special conditions and procedures for the settlement of LAT. On May 19, 2010, the SAT issued the Notice on Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知) to explain and clarify the recognition of the revenue upon the settlement of LAT and the deduction of fees incurred from property development. On May 25, 2010, the SAT issued the Notice on Strengthening the Collection Land Appreciation Tax (關於加強土地增值稅徵管工作的通知), which provides for a minimum LAT prepayment rate at 2% for provinces in eastern China region, 1.5% for provinces in the central and northeastern China regions, and 1% for provinces in the western China region. On June 2, 2013, the SAT issued the Notice of the State Administration of Taxation on Further Improving the Collection of Land Value-added Taxes (關於進一步做好土地增值稅徵管工作的通知), which requires the local taxation authorities further strengthening administration on the collection of LAT, particularly on the settlement of LAT, deductions and reduction of assessment and collection projects. On November 10, 2016, the SAT issued the Announcement on the Several Provisions on the Collection of Land Appreciation Tax after the Replacement of Business Tax with VAT (關於營改增後土地增值稅若干征管規定的公告), which clarified several issues concerning administration of collection of LAT after replacement of business tax with VAT. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set out in the relevant PRC tax laws and regulations. We prepay 1.0% to 5.0% of the sales and pre-sale proceeds each year as required by the local tax authorities in accordance with prevailing market practice which varies by locality and property type. During 2016, 2017 and 2018, we incurred LAT of RMB247.6 million, RMB179.0 million and RMB381.9 million (US\$55.5 million), respectively.

RESULTS OF OPERATIONS

2018 Compared to 2017

Revenue

Our revenue slightly increased to RMB6,735.9 million (US\$979.7 million) for 2018 from RMB6,734.1 million for 2017. Such increase was primarily attributable to an increase of trading of construction materials and sales of properties.

The following table sets out a breakdown of our revenue by segment for the year indicated:

	For the year ended December 31,		
	2017	2018	
	(RMB)	(RMB)	(US\$)
			(unaudited)
		(in thousands)	
Sales of properties	6,324,976	6,419,117	933,622
Construction and sea reclamation services	378,443	34,215	4,976
Project management services	30,648	3,952	575
Trading of construction materials	—	277,946	40,426
Healthcare service	—	701	102
	<u>6,734,067</u>	<u>6,735,931</u>	<u>979,701</u>

A summary of our segment results is set forth below:

- Sales of properties: Our segment revenue for sales of properties increased by 1.5% to RMB6,419.1 million (US\$933.6 million) for 2018 from RMB6,325.0 million for 2017. Such increase was primarily attributable to the increase in our GFA delivered and the ASP for properties delivered.
- Construction and sea reclamation services: Our segment revenue for construction and sea reclamation services decreased by 91.0% to RMB34.2 million (US\$5.0 million) for 2018 from RMB378.4 million for 2017.
- Project management services: Our segment revenue for project management services decreased by 86.9% to RMB4.0 million (US\$0.6 million) for 2018 from RMB30.6 million for 2018. Such decrease was primarily attributable to the decrease in the number of the projects managed by us.
- Trading of construction materials and healthcare services: our segment revenue for trading of construction materials was RMB277.9 million (US\$40.4 million) for 2018, primarily attributable to our trading of construction materials to third parties. Our segment revenue for healthcare services was RMB0.7 million (US\$0.1 million), primarily attributable to our provision of healthcare services in Nanchang. We expect to continue doing such businesses in the future.

Cost of sales

Our cost of sales decreased by 14.0% to RMB4,348.2 million (US\$632.4 million) for 2018 from RMB5,057.6 million for 2017. Such decrease was primarily due to the decrease in average land

acquisition cost per sq. m. delivered to RMB1,114 for 2018 from RMB2,173 for 2017. Such decrease in average land acquisition cost per sq. m. delivered was primarily due to the decrease in the GFA delivered for Royal International in Shenzhen (being a first-tier city) with a relatively high land acquisition costs and the increase in the GFA delivered for Sunshine Coast in Jianjin with a relatively lower land acquisition costs.

Gross profit

As a result of the foregoing, our gross profit increased by 42.4% to RMB2,387.7 million (US\$347.3 million) for 2018 from RMB1,676.4 million for 2017. Our gross profit margin increased to 35.4% for 2018 from 24.9% for 2017. Such increase was primarily attributable to the increase in ASP from the newly obtained project and increase in GFA delivered for the commercial properties and the lower average land acquisition cost due to the decrease in the GFA delivered in Royal International in Shenzhen.

Other gains/(losses), net

Our other gains, net increased to RMB248.5 million (US\$36.1 million) for 2018 from net other losses of RMB15.8 million for 2017. Such increase was primarily attributable to the gain from (a) the disposal of a commercial properties project company for RMB304.3 million and (b) the realised gain from the USD forward contract of RMB50.5 million, partially offset by exchange losses for RMB126.4 million for 2018 while the exchange loss was RMB33.9 million and no gain from disposal of a subsidiary and forward contract in 2017.

Selling and marketing expenses

Our selling and marketing expenses decreased by 6.1% to RMB183.5 million (US\$26.7 million) for 2018 from RMB195.5 million for 2017. Selling and marketing expenses mainly represent expenses incurred in the promotion of our properties and the sales commission to the sales agents. Such decrease was mainly due to the decrease in the marketing promotion activities for the projects, partially offset by the increase in the sales agency fee as there was an increase in the contracted sales.

General and administrative expenses

Our general and administrative expenses increased by 81.7% to RMB424.2 million (US\$61.7 million) for 2018 from RMB233.5 million for 2017, primarily due to the increase in legal expenses, staff cost and office and travelling expenses resulting from the increase in the number of projects located in different cities.

Fair value gain on an investment property

The fair value gain on investment properties represents the increase in the value on the commercial portion of the culture park which are under construction in Tianjin and a portion of the Redco Building in Shenzhen, which is held to earn rentals. The fair value gain decreased by 76.6% to RMB84.2 million (US\$12.2 million) for 2018 from RMB359.0 million for 2017. Such decrease was mainly due to that 2017 is the first year for Tianjin to transfer the culture park to investment property, therefore, the fair value gain was lower for 2018.

Impairment of goodwill

No impairment of goodwill for 2018. The impairment of goodwill amounting to RMB49.5 million for 2017 mainly represents certain premium paid in connection with our acquisition of an 80% equity interest in Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng”), which holds Mix Kingdom Redco in Hefei. Our Directors performed impairment assessment of such goodwill and those goodwill are fully impaired in 2017.

Operating profit

As a result of the foregoing, our operating profit increased by 37.1% to RMB2,112.6 million (US\$307.3 million) for 2018 from RMB1,541.2 million for 2017.

Finance income

Our finance income increased by 112.5% to RMB95.0 million (US\$13.8 million) for 2018 from RMB44.7 million for 2017, primarily attributable to the increase in our finance income from loans to non-controlling interests, and an associate and a third party in 2018 and the increase in the interest income from bank deposit.

Finance costs

Our finance costs increased by 1.0% to RMB71.7 million (US\$10.4 million) for 2018 from RMB70.9 million for 2017. Such increase was mainly due to the increase in interest expense which is not eligible to be capitalized.

Share of profit of investments accounted for using the equity method, net

Our share of profit of investments accounted for using the equity method, net amounted to RMB77.5 million (US\$11.3 million) for 2018 as compared to RMB82.9 million for 2017. Such decrease was primarily due to (a) the profit decreased by the GFA delivery in Bluelake International in Nanchang, which is a joint-controlled real estate development project and becomes a subsidiaries of the Company from July 1, 2018 and; (b) the decrease in share of profit in relation to the fair value gain from the investment property held by Redco Industry (Jiangxi) Co., Ltd..

Profit before income tax

As a result of the foregoing, our profit before income tax increased to RMB2,213.5 million (US\$321.9 million) for 2018 from RMB1,597.9 million for 2017.

Income tax expense

Our income tax expense increased by 50.9% to RMB917.0 million (US\$133.4 million) for 2018 from RMB607.7 million for 2017. Such increase was primarily due to the reversal of an over provision of PRC land appreciation tax in prior years and net-off by the increase in PRC enterprise income tax as a result of increased profit of the Group and provision of PRC EIT for the gain on the disposal of a subsidiary.

Profit for the year

As a result of the foregoing, our profit increased by 30.9% to RMB1,296.4 million (US\$188.6 million) for 2018 from RMB990.1 million for 2017. The profit for the year ended December 31, 2018 was mainly attributable to the profit in the Greater Western Taiwan Straits Economic Zone of RMB417.5 million (US\$60.7 million), Central and Western Regions of RMB127.5 million (US\$18.5 million), Bohai Economic Rim of RMB967.7 million (US\$140.7 million), which was partially offset by loss of Pearl River Delta Region of RMB9.2 million (US\$1.3 million) and others segment for RMB207.1 million (US\$30.1 million).

Profit for the year attributable to non-controlling interests

Profit for the period attributable to non-controlling interests increased to RMB305.7 million (US\$44.5 million) for 2018 as compared with RMB127.9 million for 2017, mainly due to the increase in the profit from property development projects with other investors.

2017 Compared to 2016

Revenue

Our revenue increased by 27.8% to RMB6,734.1 million for 2017 from RMB5,270.1 million for 2016. Such increase was primarily due to the increase in its GFA delivered of the residential properties of Mix Kingdom Redco and Prince Royal Family in Hefei, Riverlake International, Bluelake County in Jinan and Sunshine Coast in Tianjin, and was partially offset by the decrease in the GFA delivered for Royal International in Shenzhen and Phase I of Sunshine Coast in Yantai. The total GFA delivered increased by 32.5% to 858,197 sq. m. for 2017 from 647,822 sq. m. for 2016. The increase in our total revenue was also partially offset by a decrease in the recognized ASP for the properties delivered to RMB7,370 for 2017 from RMB7,959 for 2016, primarily due to the decrease in GFA delivered of Redco International in Shenzhen which recognized a relatively higher ASP as compared with other property development projects of the Group in 2016.

The following table sets out a breakdown of our revenue by segment for the years indicated:

	For the year ended December 31,	
	2016	2017
	<i>(RMB)</i>	<i>(RMB)</i>
	<i>(Restated)</i>	
	<i>(in thousands)</i>	
Sales of properties	5,155,966	6,324,976
Construction and sea reclamation services	76,528	378,443
Property management services	37,596	—
Project management services	—	30,648
	<u>5,270,090</u>	<u>6,734,067</u>

A summary of our segment results is set forth below:

- Sales of properties: Our segment revenue for sales of properties increased by 22.7% to RMB6,325.0 million for 2017 from RMB5,156.0 million for 2016. Such increase was primarily attributable to the increase in contracted sales in 2017.
- Construction and sea reclamation services: Our segment revenue for construction and sea reclamation services increased by 394.6% to RMB378.4 million for 2017 from RMB76.5 million for 2016. Such increase was primarily attributable to the increase in the sea reclamation services provided in Tianjin.
- Property management services: We did not generate revenue from property management services in 2017 primarily attributable to the disposal of property management services in late 2016.

- Project management services: Our segment revenue for project management services increased to RMB30.7 million for 2017 from nil for 2016.

Cost of sales

Our cost of sales increased by 20.9% to RMB5,057.6 million for 2017 from RMB4,184.8 million for 2016. Such increase was primarily due to an increase in cost of properties sold as a result of (a) the increase in GFA delivered to 858,197 sq. m. for 2017 from 647,822 sq. m. for 2016; (b) the decrease in average land acquisition cost per sq. m. delivered to RMB2,173 for the year ended 31 December 2017 from RMB2,711 for the year ended 31 December 2016. Such decrease in average land acquisition cost per sq. m. delivered was primarily due to the decrease in the GFA delivered for Royal International in Shenzhen (being a first-tier city) with a relatively high land acquisition costs.

Gross profit

Our gross profit increased by 54.5% to RMB1,676.4 million for 2017 from RMB1,085.3 million for 2016. Our gross profit margin increased to 24.9% for 2017 from 20.6% for 2016. Such increase was primarily attributable to the lower average land acquisition cost and construction cost as the decrease in the GFA delivered in Royal International in Shenzhen.

Other (losses)/gains, net

Our other (losses)/gains, net decreased to loss of RMB15.8 million for 2017 from gain of RMB171.2 million for 2016. Such decrease was primarily attributable to the exchange losses for RMB33.9 million for the year ended 31 December 2017 which in 2016 is exchange gain for RMB28.3 million and the decrease in the gain on disposal of subsidiary from RMB123.0 million to RMB1.6 million for the year ended 31 December 2017.

Selling and marketing expenses

Our selling and marketing expenses increased by 33.3% to RMB195.5 million for 2017 from RMB146.6 million for 2016. Selling and marketing expenses mainly represent expenses incurred in the promotion of our properties and the sales commission to the sales agents. Such increase was mainly due to the increase in the marketing promotion activities for the projects and the increase in the sales agency fee as the increase in the contracted sales, which we have commenced, or will commence sales next year.

General and administrative expenses

Our general and administrative expenses increased by 41.7% to RMB233.5 million for 2017 from RMB164.8 million for 2016, primarily due to the increase in office and travelling expenses due to the increase in the number of project which are located in different cities.

Fair value gain on an investment property

Our fair value gain on an investment property represents the increase in the value on the commercial portion of the culture park which are under construction in Tianjin. Our management consider such commercial portion are going to be held by the Company and to be leased out after completion, therefore the cost of the commercial portion has transferred to investment property during the year ended 31 December 2017 and resulted in a fair value gain.

Impairment of goodwill

We recorded impairment of goodwill of RMB49.5 million for 2017 and nil for 2016, respectively. Such goodwill represents certain premium paid in connection with our acquisition of an 80% equity interest in Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng”), which holds Mix Kingdom Redco in Hefei. Our Directors performed impairment assessment of such goodwill and the increase in the impairment of goodwill primarily due to most of the GFA were delivered in Mix Kingdom during year ended 31 December 2017.

Operating profit

As a result of the foregoing, our operating profit increased by 63.1% to RMB1,541.2 million for 2017 from RMB945.2 million for 2016.

Finance income

Our finance income increased by 192.3 % to RMB44.7 million for 2017 from RMB15.3 million for 2016, primarily attributable to the increase in our finance income from loans to non-controlling interests in 2017.

Finance costs

Our finance costs increased by 1,007.8% to RMB70.9 million for 2017 from RMB6.4 million for 2016. Such increase was mainly due to the increase in interest expense which is not eligible to be capitalised and the finance charge for the redemption of Senior Note due 2019 for RMB58.0 million.

Share of profit of investments accounted for using the equity method, net

Our share of profit of investments accounted for using the equity method, net amounted to RMB82.9 million for 2017 as compared to RMB6.6 million for 2016. Such increase was primarily due to (i) the profit increased by the GFA delivery in Luxurious Mansion in Nanchang, which is a joint-controlled real estate development project and; (ii) the increase in share of profit in relation to the fair value gain from the investment property held by Redco Industry (Jiangxi) Co., Ltd..

Profit before income tax

As a result of the foregoing, our profit before income tax increased to RMB1,597.9 million for 2017 from RMB960.7 million for 2016.

Income tax expense

Our income tax expense increased by 49.7% to RMB 607.7 million for 2017 from RMB406.0 million for 2016. Such increase was primarily due to the increase in enterprise income tax as a result of increased profit of the Group and the provision of the deferred tax for the fair value gain of the investment property and net-off by the decrease in LAT as a result of the decrease in general gross profit.

Profit for the year ended December 31, 2017

As a result of the foregoing, our profit increased by 78.5 % to RMB990.1 million for 2017 from RMB 554.8 million for 2016. The profit for the year ended 31 December 2017 was mainly attributable to the profit in the Greater Western Taiwan Straits Economic Zone of RMB188.9 million, Central and Western Regions of RMB440.1 million, Bohai Economic Rim of RMB465.1 million, Pearl River Delta Region of RMB96.8 million which was partially offset by loss of Others segment for RMB200.8 million.

Profit for the year attributable to non-controlling interests

Profit for the period attributable to non-controlling interests increased to RMB127.9 million for 2017 as compared with RMB104.0 million for 2016, mainly due to the profit from Royal International in Shenzhen and Mix Kingdom Redco in Hefei increased.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets out selected cash flow data from our consolidated statements of cash flows for the years indicated:

	For the year ended December 31,			
	2016	2017	2018	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
				<i>(unaudited)</i>
				<i>(in thousands)</i>
Net cash generated from/(used in) operating activities	1,645,144	(134,871)	(2,256,071)	(328,132)
Net cash (used in) investing activities	(512,516)	(1,656,568)	(1,141,913)	(166,084)
Net cash (used in)/generate from financing activities	<u>(416,136)</u>	<u>2,996,061</u>	<u>5,475,464</u>	<u>796,373</u>
Net increase in cash and cash equivalents	716,492	1,204,622	2,077,480	302,157
Cash and cash equivalents at beginning of year	1,689,142	2,417,219	3,587,770	521,819
Currency translation differences	11,585	(34,071)	13,613	1,980
Cash and cash equivalents at end of year	<u>2,417,219</u>	<u>3,587,770</u>	<u>5,678,863</u>	<u>825,956</u>

Cash flows generated from/(used in) operating activities

Our cash used in operating activities principally comprises payments for its property development activities and land acquisitions. Our cash from operating activities is generated principally from proceeds received from pre-sale and sales of our properties.

For 2018, we had net cash used in operating activities of RMB2,256.1 million (US\$328.1 million), which primarily comprised income tax paid of RMB631.7 million (US\$91.9 million) and net

cash used in operations of RMB1,624.3 million (US\$236.2 million). Our cash generated from operations prior to changes in working capital was RMB1,873.5 million (US\$272.5 million). Changes in working capital contributed to a net cash outflow of RMB3,497.9 million (US\$508.7 million), primarily due to increase in company scale and increase in the cash for the net working capital.

For 2017, we had net cash used in operating activities of RMB134.9 million, which primarily comprised income tax paid of RMB466.2 million, partially offset by net cash generated from operations of RMB331.3 million. Our cash generated from operations prior to changes in working capital was RMB1,247.4 million. Changes in working capital contributed to a net cash outflow of RMB916.1 million, primarily due to an increase in trade and other receivables and prepayments of RMB1,752.6 million, a decrease in trade and other payables of RMB1,134.7 million and an increase in restricted cash of RMB132.2 million, partially offset by a decrease in properties under development for sale of RMB1,423.4 million, a decrease in completed properties held for sale of RMB408.4 million and a decrease in receipts in advance of RMB271.6 million.

For 2016, we had net cash generated from operating activities of RMB1,645.1 million, primarily comprising net cash generated from operations of RMB2,037.8 million, partially offset by income tax paid of RMB392.7 million. Our cash generated from operations prior to changes in working capital was RMB799.9 million. Changes in working capital contributed to a net cash inflow of RMB1,238.0 million, primarily due to a decrease in properties under development for sale of RMB2,389.9 million and an increase in receipts in advance of RMB1,286.6 million, partially offset by an increase in completed properties held for sale of RMB735.4 million, an increase in trade and other receivables and prepayments of RMB771.3 million, a decrease in trade and other payables of RMB414.3 million and a decrease in restricted cash of RMB517.5 million.

Cash flows (used in) investing activities

Our cash inflows generated from investing activities primarily reflects repayment from non-controlling interests, disposal of subsidiaries and assets and liabilities held for sale and interest received. Our cash used in investing activities primarily reflect cash used for restricted cash in connection with guaranteed deposits for the mortgage loan facilities granted by banks to purchasers of its Group's properties, cash used for term deposits with initial terms of over three months, acquisition of subsidiaries (net of cash acquired), advances to non-controlling interests, cash used for certain investment in financial assets, capital injection to joint ventures and associates, loans due from third parties, joint ventures and an associate and additions of property, plant and equipment.

For 2018, we had net cash used in investing activities of RMB1,141.9 million (US\$166.1 million), which primarily consisted of advances to non-controlling interests of RMB711.4 million (US\$103.5 million), payments for acquisition of subsidiaries, net of cash acquired of RMB442.1 million (US\$64.3 million) and loans due from third parties of RMB207.6 million (US\$30.2 million), partially offset by net inflows of cash in respect of the disposal of subsidiaries.

For 2017, we had net cash used in investing activities of RMB1,656.6 million, which primarily consisted of prepayment for business combinations, net of cash acquired of RMB516.7 million, prepayment for purchase of property, plant and equipment of RMB430.2 million, and payment for investment in associates of RMB275.7 million, partially offset by advances to joint ventures of RMB92.5 million and interest received of RMB19.0 million.

For 2016, we had net cash used in investing activities of RMB512.5 million, which primarily consisted of payments for business combinations, net of cash acquired of RMB483.7 million, payments for investment in of joint ventures of RMB136.6 million, advance to joint ventures, net of RMB48.3 million, payment for acquisition of 10% interest in a non-wholly owned subsidiary from non-controlling interest of RMB10.0 million, additions of property, plant and equipment of RMB4.4

million and advance to an associate of RMB3.5 million, partially offset by net inflows of cash in respect of the disposal of subsidiaries of RMB72.5 million, proceeds from capital injection from non-controlling interests of RMB66.0 million, proceed from disposal of 10% interest in a subsidiary from non-controlling interest of RMB19.8 million and interest received of RMB15.3 million.

Cash flows generated from/(used in) financing activities

Our cash inflows from financing activities primarily reflect proceeds from bank borrowings and advance from shareholders and directors. Our cash outflows from financing activities primarily reflect repayment of bank borrowings, repayment to shareholders and directors and interest paid.

For 2018, we had net cash generated from financing activities of RMB5,475.5 million (US\$796.4 million), which was primarily due to the issuance of the February 2018 Notes of RMB2,277.4 million (US\$331.2 million), proceeds from bank borrowings of RMB4,572.8 million (US\$665.1 million), and advances from non-controlling interests of RMB2,007.2 million (US\$291.9 million), partially offset by repayment of bank borrowings of RMB3,037.1 million (US\$441.7 million), repayment of the 2017 Notes of RMB1,799.2 million (US\$261.7 million) and interest paid of RMB496.4 million (US\$72.2 million).

For 2017, we had net cash generated from financing activities of RMB2,996.1 million, which was primarily due to proceeds from bank borrowings of RMB4,997.0 million, issuance of the 2017 Notes of RMB1,673.8 million, and advances from joint ventures of RMB74.5 million, partially offset by repayment of bank borrowings of RMB2,111.1 million and redemption of the February 2018 Notes of RMB900.0 million.

For 2016, we had net cash used in financing activities of RMB416.1 million, which was primarily due to repayment of bank borrowings of RMB2,396.0 million, payments to non-controlling interests of RMB203.4 million, repayment to a related party of RMB161.1 million, repayment to a joint venture of RMB6.0 million, interest paid of RMB300.3 million and dividend paid of RMB24.0 million, partially offset by proceeds from bank borrowings of RMB2,674.7 million.

Cash and Cash Equivalents

As of December 31, 2016, 2017 and 2018, we had cash and cash equivalents of RMB2,417.2 million, RMB3,587.1 million and RMB5,678.9 million (US\$826.0 million), respectively, which consisted of cash at bank and on hand.

Restricted Cash

As of December 31, 2016, 2017 and 2018, we had restricted cash of RMB1,186.3 million, RMB1,318.5 million and RMB2,186.1 million (US\$318.0 million), respectively. Our restricted cash comprised (i) guaranteed deposits for the mortgage loan facilities granted by banks to purchasers of the Group's properties, (ii) guaranteed deposits for constructions of properties from certain property development companies of the Group that are required to place certain amount of presale proceeds of properties in designated bank accounts in accordance with relevant regulations issued by local State-Owned Land and Resource Bureau, and (iii) other bank deposits that are restricted in use as collateral for banking facilities of the Group.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Borrowings

The following table sets out a breakdown of our outstanding borrowings as of the dates indicated:

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
	(unaudited)			
Long-term bank and other borrowings, secured	2,464,328	3,982,100	3,549,978	516,323
The August 29 2018 Notes	—	—	1,362,773	198,207
The 2014 Notes ⁽¹⁾	855,204	—	—	—
Portion of long-term bank and other borrowings, secured				
- due for repayment within one year, secured	90,100	1,002,286	3,246,900	472,242
- due for repayment within one year which contain a repayment on demand clause, secured	46,863	24,500	24,500	3,563
- due for repayment after one year which contain a repayment on demand clause, secured	172,737	139,336	125,768	18,292
Short-term bank and other borrowings, secured	—	472,300	592,540	86,181
The 2017 Notes ⁽²⁾	—	1,622,697	—	—
The February 2018 Notes	—	—	2,048,688	297,969
The August 1 2018 Notes	—	—	108,534	15,787
Current borrowings, secured	309,700	3,261,119	6,146,930	894,034
Total borrowings	<u>3,629,232</u>	<u>7,243,219</u>	<u>11,059,681</u>	<u>1,608,564</u>

Note:

- (1) We issued US\$125,000,000 13.75% senior notes due 2019 on August 1, 2014. The 2014 Notes were redeemed in full on August 9, 2017.
- (2) We issued US\$250,000,000 7.0% senior notes on November 15, 2017. The 2017 Notes have become matured and been fully repaid on November 14, 2018.

Our borrowings in 2016, 2017 and 2018 were denominated in both Renminbi, US dollar and Hong Kong dollar. As of December 31, 2016, 2017 and 2018, our total outstanding borrowings (including bank and other borrowings and the notes issuance) amounted to RMB3,629.2 million, RMB7,243.2 million and RMB11,059.7 million (US\$1,608.6 million), respectively. The overall increase in our borrowings was primarily due to the increasing needs to finance our property developments as we expanded the scale of our operations.

The following table sets out the maturity profiles of our borrowings (i.e. ignoring the effect of any repayment on demand clause) as of the dates indicated:

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
	(unaudited)			
Amounts of borrowings that are repayable:				
- Within one year	136,963	3,121,783	6,021,162	875,742
- Between one to two years	845,143	2,113,509	4,553,060	662,215
- Between two to five years	2,647,126	2,007,917	485,459	70,607
	<u>3,629,232</u>	<u>7,243,219</u>	<u>11,059,681</u>	<u>1,608,564</u>

Our borrowings are arranged at fixed and variable rates ranging from 3.15% to 13.88% from 2016 to 2018.

The carry amounts of all our borrowings as of December 31, 2016, 2017 and 2018 were denominated in the following currencies:

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
	(unaudited)			
US\$	1,738,912	3,879,876	5,960,995	866,991
RMB	1,670,720	3,199,507	4,948,417	719,718
HK\$	219,600	163,836	150,269	21,855
	<u>3,629,232</u>	<u>7,243,219</u>	<u>11,059,681</u>	<u>1,608,564</u>

Subsequent to December 31, 2018, we have, from time to time, in the ordinary course of business, entered into additional loan agreements to finance our property developments or for general corporate purposes. For a description of our material indebtedness, see “Description of Other Material Indebtedness.”

Contingent Liabilities

Guarantees on mortgage facilities

In 2016, 2017 and 2018, we had arranged for bank financing for certain purchasers of our properties and provided guarantees to secure obligations of such purchaser for repayments. Such guarantees will terminate upon the earlier of (i) the transfer of the building ownership certificate to the purchaser; or (ii) the satisfaction of mortgage loans by the purchasers of the properties.

Pursuant to the terms of the guarantees, upon default of mortgage payments by these purchasers, we would be responsible to repay the outstanding mortgage principal together with accrued interest and penalties owed by the defaulting purchasers to the banks and we would be entitled to take over the legal title and possession of the related properties. Our guarantee period starts from the date of grant of mortgage. Our Directors consider that the likelihood of default of payments by the purchasers is minimal and therefore the financial guarantee measured at fair value is immaterial. The following table shows our total mortgage guarantees as of the dates indicated:

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
				(in thousands)
Guarantees in respect of mortgage for certain purchasers of the Group's properties	<u>5,100,315</u>	<u>6,052,438</u>	<u>5,932,804</u>	<u>862,891</u>

Our directors confirm that it did not experience any material default on mortgage guarantees in 2016, 2017 and 2018.

As of December 31, 2018, we provided mortgage guarantees amounting to RMB5,932.8 million (US\$862.9 million) in respect of mortgage loans granted to purchasers of its developed properties. In addition, there were certain corporate guarantees provided by some of the Group's subsidiaries for certain other subsidiaries in respect of borrowings as of December 31, 2018. The Directors consider that the subsidiaries are sufficiently financially resourced to fulfil their obligations.

Off-Balance Sheet Commitments and Arrangements

Except for the contingent liabilities disclosed above, as of December 31, 2018, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities. The Company provides a corporate guarantee of AUD 70,000,000 to the subsidiary of Power Out International Ltd., a joint venture of the Group.

CONTRACTUAL OBLIGATIONS

As of December 31, 2016, 2017 and 2018, we had the following commitments that are contracted but not provided in respect of land acquisition and property development expenditures:

	As of December 31,			
	2016	2017	2018	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
			(in thousands)	
Contracted but not provided for:				
Property development expenditures	1,192,719	2,244,062	6,045,822	879,328
Land use right	—	—	414,387	60,270
Leasehold improvement	—	—	1,628	237
Acquisition of subsidiaries	—	146,446	—	—
Capital injection to a joint venture	—	5,357	—	—

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

We are, in the ordinary course of its business, exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on unpredictability of financial markets and seeks to minimize the relevant potential adverse effects on our performance.

Market Risks

We are exposed to various types of market risks, including foreign exchange risk and cash flow interest rate risk.

Foreign exchange risk

We mainly operate in the PRC, with most of our transactions settled in the Renminbi. Foreign exchange risk would arise when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency. We are exposed to foreign exchange risk primarily with respect to the Hong Kong dollar and the United States dollar.

As of December 31, 2016, 2017 and 2018, certain of our cash and bank balances were denominated in the Hong Kong dollar and the United States dollar.

As of December 31, 2016, 2017 and 2018, we were exposed to foreign exchange risk primarily with respect to certain of our borrowings which were denominated in the Hong Kong dollar and US dollar. The Renminbi experienced certain depreciation and appreciation against the Hong Kong dollar and US dollar during the periods, which was the major reason for the exchange differences recognized by us in 2016, 2017 and 2018. Future appreciation or depreciation of the Hong Kong dollar and US dollar against the Renminbi will affect our results of operations and financial position.

Cash flow interest rate risk

Our cash flow interest rate risk is mainly due to its bank borrowings. Borrowings of variable rates expose us to cash flow interest rate risk. We have not hedged our cash flow interest rate risk. Our management does not anticipate significant impact to our interest-bearing assets resulting from changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

Credit Risk

Our credit risk arises from bank deposits and other receivables. All our bank deposits are placed with banks with sound credit ratings to mitigate the risk. We do not hold any collateral as security. For other receivables, financial assets at fair value through profit and loss, amounts due from related parties and amounts due from non-controlling interests, we assess the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Our management also regularly review the recoverability of these receivables and follow up on the disputes or amounts overdue, if any. Our Directors are of the opinion that the risk of default by counterparties is low.

We typically provide guarantees to banks in connection with our customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage loan during the guarantee period, the bank holding the guarantee may demand us to repay the outstanding amount under the loan and any interest accrued thereon. Under such circumstances, we are able to retain the customers' deposit and resell the property to recover any amounts paid by us to the bank. In this regard, our Directors consider that our credit risk is significantly reduced.

Liquidity Risk

The capital intensive nature of our business operations exposes us to liquidity risk. In managing our liquidity risk, we regularly and closely monitor our current and expected liquidity requirements to maintain its rolling cash flow at a level which is considered adequate by our management to finance our operations and to maintain sufficient cash to meet our business development requirements.

Our management has periodically prepared cash flow projections and it has a number of alternative plans to offset the potential impact on our business development and current operations, should there be circumstances in which the anticipated cash flow may be affected by any unexpected changes in the economic conditions of the PRC. Our Directors consider that we will be able to maintain sufficient financial resources to meet our needs.

Inflation

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index. Recent inflation and deflation have not materially affected our business, despite relatively significant increases in inflation since December 31, 2016. Deflation could adversely affect our business, as it might be a disincentive for prospective purchasers to purchase our properties.

NON-GAAP FINANCIAL MEASURES

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

- finance income/costs;
- amortization of intangible assets and land use rights;
- impairment of goodwill;
- share of loss of a joint venture;
- income tax expense; and
- depreciation.

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

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

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

	For the year ended December 31,			
	2016	2017	2018	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
	<i>(Restated)</i>			<i>(unaudited)</i>
	<i>(in thousands, except for percentages)</i>			
Profit before tax	960,748	1,597,867	2,213,472	321,936
Adjustments:				
Less:				
Other losses/(gains), net	(171,237)	15,803	(248,469)	(36,138)
Share of profit of investments accounted for using the equity method, net	(6,612)	(82,870)	(77,468)	(11,267)
Finance income	(15,302)	(44,729)	(95,025)	(13,821)
	<u>767,597</u>	<u>1,486,071</u>	<u>1,792,510</u>	<u>260,710</u>
Add:				
Finance costs	6,364	70,945	71,662	10,423
Capitalized interest included in cost of sales	259,972	408,935	309,749	45,051
Depreciation	7,623	6,597	9,930	1,445
Impairment of goodwill	—	49,535	—	—
EBITDA	<u><u>1,041,556</u></u>	<u><u>2,022,083</u></u>	<u><u>2,183,851</u></u>	<u><u>317,629</u></u>
EBITDA margin	19.76%	30.03%	32.42%	32.42%

Our definition of EBITDA should not be considered in isolation or construed 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. 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.

INDUSTRY OVERVIEW

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

OVERVIEW OF THE PRC ECONOMY

China has experienced significant economic growth since the adoption of the reform and opening-up policy by the PRC government in 1978. China's nominal GDP grew at a CAGR of 11.4% from 2008 to 2017, reaching approximately RMB82,712 billion in 2017 and making China one of the fastest growing economies in the world.

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Nominal GDP										
(RMB in billion) . . .	31,405	34,090	40,151	47,288	51,932	56,885	64,397	68,905	74,413	82,712
Population (million) . . .	1,328	1,335	1,341	1,347	1,354	1,361	1,368	1,375	1,383	1,390
Fixed asset investment										
(RMB in billion) . . .	17,283	22,460	27,812	31,149	37,468	44,707	51,202	56,200	60,647	63,168
Per capita GDP (RMB) . .	23,708	25,608	30,015	35,181	38,354	41,805	47,203	50,251	53,980	59,660
Real GDP growth rate										
(%)	9.0	8.7	10.3	9.2	7.8	7.7	7.3	6.9	6.7	6.9

Sources: China Statistic Yearbook, National Bureau of Statistics of China ("NBSC")

Before the global financial crisis in 2008, China's nominal GDP grew at a CAGR of approximately 18.3% between 2003 and 2008. Following the global financial crisis in 2008, China further strengthened its economy by loosening macroeconomic policies and launching its RMB4 trillion stimulus package in 2008. Starting in 2010, in order to cope with rising inflation and unbalanced economic growth, China implemented a series of economic austerity measures to slow down its overheated economy by adjusting interest rates, bank deposit reserve ratio and austerity measures for the housing market. From 2015 to 2017, China's real GDP grew at an annual growth rate of approximately 6.9%, 6.7% and 6.9% respectively.

The PRC's annual real GDP growth rate target set by the PRC government in recent years has been 6.5% between 2016 and 2020. However, as mentioned above, the actual real GDP growth rate of the country consistently surpassed the targeted level from 2015 to 2017.

In March 2013, the PRC government announced a real GDP growth rate target of 6.5% for 2017. After years of high but unbalanced economic growth, the PRC government has set a more moderate annual growth rate target which aims to improve the quality of economic growth and to promote economic restructuring as a way to sustain longer-term growth.

OVERVIEW OF THE REAL ESTATE MARKET OF THE PRC

Recent developments of real estate policies in the PRC

In order to avoid over-heating of the real estate market, the PRC government has promulgated various restrictive measures to stabilize housing prices. For details of recent developments of real estate policies in the PRC, please refer to the section headed “Regulation — Measures on stabilizing housing price” in this offering memorandum.

Key growth drivers of the real estate market in the PRC

In addition to the ongoing housing reform and the overall growth of the PRC economy, the key factors driving the growth of the real estate market in the PRC include increases in disposable income and rapid urbanization.

The table below sets out selected economic statistics of the PRC for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Urban population (million)	624.03	645.12	669.78	690.79	711.82	731.11	749.20	771.20	793.00	813.50
Urbanization rate (%) . . .	47.0	48.3	50.0	51.3	52.6	53.7	54.8	56.1	57.3	58.5
Per capita disposable income of urban households (RMB)	15,781	17,175	19,109	21,810	24,565	26,955	28,844	31,195	33,616	36,396

Sources: National Bureau of Statistics, World Bank

The cities in which our existing and planned property developments and investments are situated also experienced significant GDP growth. The tables below illustrate the nominal GDP in these cities for the years indicated:

	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate	Nominal GDP	Nominal growth rate
	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)	(RMB bn)	(%)
China	31,405	18.1	34,090	8.6	40,151	17.8	47,288	17.8	51,932	9.8	56,885	9.5	64,397	8.2	68,905	7.0	74,413	8.0	82,712	11.2
Nanchang	166	19.4	184	10.7	221	20.1	269	21.8	300	11.6	334	11.2	367	9.8	400	9.1	440	8.9	500	13.7
Tianjin	635	26.6	750	18.1	911	21.4	1,119	22.9	1,289	15.1	1,437	11.4	1,573	9.4	1,654	5.2	1,789	8.1	1,860	3.9
Jinan	302	18.4	335	10.9	391	16.7	441	12.7	481	9.2	523	8.7	577	10.3	610	5.7	654	7.1	720	10.1
Yantai	343	19.1	373	8.7	436	16.9	491	12.6	528	7.5	561	6.3	600	7.0	645	7.4	693	7.4	734	5.9
Hefei	167	25.6	210	25.7	270	28.6	364	34.8	416	14.3	467	12.3	518	10.9	566	9.3	627	10.8	721	15.0
Xianyang	77	30.5	87	13.0	110	26.4	136	23.6	162	19.1	186	14.8	208	11.7	216	3.8	240	11.1	234	(2.5)
Shenzhen	781	15.4	820	5.0	951	16.0	1,150	20.9	1,295	12.6	1,450	12.0	1,600	10.4	1,750	9.4	1,949	11.4	2,244	15.1

Sources: China Statistic Yearbook, NBSC, Local Bureaus of Statistics

Furthermore, demand for real estate property is also driven by the emergence and growth of the mortgage lending market in China. Due to this favorable market environment, investment in real estate development in China rose from approximately RMB3,120 billion in 2008 to approximately RMB10,980 billion in 2017, representing a CAGR of approximately 15.0%.

The table below sets out selected data relating to the property market in the PRC for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real estate development										
Investment (RMB in billion)	3,120	3,624	4,826	6,180	7,180	8,601	9,054	9,598	10,258	10,980
GFA of commodity properties sold (million sq.m.)	660	948	1,048	1,094	1,113	1,306	1,206	1,285	1,573	1,694
GFA of residential properties sold (million sq.m.)	593	862	934	965	985	1,157	1,502	1,124	1,375	1,448
Average selling price of commodity properties (RMB per sq.m.)	3,800	4,681	5,032	5,357	5,791	6,237	6,324	6,793	7,476	7,892
Average selling price of residential properties (RMB per sq.m.)	3,576	4,459	4,725	4,993	5,430	5,850	5,933	6,472	7,203	7,614
Total sales revenue of commodity properties (RMB in billion)	2,507	4,436	5,272	5,859	6,446	8,143	7,629	8,728	11,763	13,370
Total sales revenue for residential properties (RMB in billion)	2,120	3,843	4,412	4,820	5,347	6,769	6,241	7,277	9,906	11,024

Source: National Bureau of Statistics

The average selling price of commodity properties sold in China increased from approximately RMB3,800 per sq.m. in 2008 to approximately RMB7,892 per sq.m. in 2017, while the average selling price of residential properties increased from approximately RMB3,576 per sq.m. in 2008 to approximately RMB7,614 per sq.m. in 2017.

Development of the Western Taiwan Straits Economic Zone

On May 6, 2009, the State Council promulgated the Several Opinions in relation to Supporting Fujian Province to Accelerate the Development of the Western Taiwan Straits Economic Zone (Guo Fa [2009] No. 24) (關於支持福建省加快建設海峽西岸經濟區的若干意見(國發[2009] 24號)), pursuant to which the PRC government intends to accelerate the development of the Western Taiwan Straits Economic Zone in order to boost the nation's coastal economy as a whole, channel overseas capital to western and central China and to forge stronger economic cooperation with Taiwan.

The Western Taiwan Straits Economic Zone includes Fuzhou, Xiamen, Zhangzhou, Quanzhou, Putian, Sanming, Nanping, Longyan and Ningde in Fujian Province; Wenzhou, Lishui, Quzhou in Zhejiang Province; Shantou, Meizhou, Chaozhou, Jieyang in Guangdong Province; and Shangrao, Yingtan, Fuzhou, Ganzhou in Jiangxi Province.

Over the past few years the Economic Zone has focused on port logistics to largely improve its basic infrastructure and cargo-handling capacity through restructuring and central management. We believe that Fujian Province and neighboring Jiangxi Province are the key constituents of the Western Taiwan Straits Economic Zone. Adjacent to the Taiwan Straits, we believe that these two provinces are well positioned to act as the hub of the Western Taiwan Straits Economic Zone linking together the Pearl River Delta and the Yangtze River Delta as well as the vast area of Central China.

For 2017, per capita GDP of Fujian Province reached RMB82,976, while per capita disposable income of urban households reached RMB39,001, representing a growth of 12.2% and 8.3% over 2016 respectively. For 2017, per capita GDP of Jiangxi Province reached RMB45,187 and per capita disposable income reached RMB31,198, representing a growth of 12.7% and 8.8% over 2016, respectively. We believe that the strong economic performance will lead to increasing demand in the property market in the region.

For purposes of this offering memorandum, we have defined the Greater Western Taiwan Straits Economic Zone to include Fujian Province, Jiangxi Province, Wenzhou, Lishui and Quzhou in Zhejiang Province and Shantou, Meizhou, Chaozhou and Jieyang in Guangdong Province.

Development of the Bohai Economic Rim

The Bohai Economic Rim consists of three provinces and two municipalities surrounding the Bohai Rim area, namely Beijing, Tianjin municipality, Hebei province, Shandong Province and Liaoning Province. On December 21, 2010, the State Council promulgated the Notice in relation to the Issuance of the National Plan for Priority Development Zones (Guo Fa [2010] No. 46) (國務院關於印發全國主體功能區規劃的通知(國發[2010] 46號)), pursuant to which the PRC government aims to develop the Bohai Economic Rim into the gateway for international trade and commerce and the leading economic engine in Northern China, constituting one of China's three major economic regions with development priority, with the other two being the Pearl River Delta and the Yangtze River Delta.

In 2017, the State Council has approved the guideline on the development of the Bohai Economic Rim, which urges the construction of major infrastructures to build a modern network of transportation, energy, water resources and information. Local governments will mainly focus on upgrade of industries. We believe that Tianjin municipality and bordering Shandong Province possess great economic growth potential that is conducive to a robust real estate market. For 2017, per capita GDP of Tianjin Municipality reached RMB119,238 and per capita disposable income of urban households reached RMB40,278, representing a growth rate of 3.6% and 8.5% over 2016, respectively. For 2017, per capita GDP of Shandong Province reached RMB72,851 and per capita disposable income of urban households reached RMB36,789, representing a growth of 7.6% and 8.2% over 2016, respectively.

Development of the Central and Western Regions

The Central and Western regions encompass vast areas of inland China, and have been targeted by the central government for the implementation of major economic reform and development policies. On August 31, 2010, the State Council issued the Guiding Opinions of the State Council on Central and Western Regions' Undertaking of Industrial Transfer (Guo Fa [2010] No. 28) (國務院關於中西部地區承接產業轉移的指導意見(國發[2010] 28號)), providing guidelines for the migration of industries towards the Central and Western Regions with the aim of promoting further urbanization and economic growth. On February 13, 2012, the State Council circulated the Official Reply of the State Council on the 12th Five-Year Plan for the Large-Scale Development of the Western Regions (Guo Fa [2012] No. 8) (國務院關於西部大開發“十二五”規劃的批覆(國發[2012] 8號)), setting out the plan for long-term sustainable economic development and the goal of achieving a GDP growth rate higher than that of the national average. On August 27, 2012, the State Council further promulgated the Several Opinions of the State Council on Vigorous Implementation of the Strategy of Promoting the Rise of the Central Region (Guo Fa [2012] No. 43) (國務院關於大力實施促進中部地區崛起戰略的若干意見(國發[2012] 43號)), pursuant to which the PRC government intends to continue economic policy support for the region. On January 5, 2017, the Stake Council circulated the Official Reply on the 13th Five-Year Plan for the Large-Scale Development of the Western Regions (Guo Han[2017]No. 1)(國務院關於西部大開發“十三五”規劃的批復(國函[2017]1號)) to provide further support for

development of the region in various aspects such as taxation, project development, financing, etc. From 2000 to 2017, the Chinese government invested RMB6.85 trillion in 317 major projects, mostly in infrastructure and energy, in western regions. In 2017 alone, RMB494.1 billion was invested in 17 major projects in western regions, according to the National Development and Reform Commission.

We believe that the Central and Western Regions have benefited and will continue to benefit from policy support from the central government with the aim of nurturing long-term economic growth and promoting urbanization, which will help unlock growth potential in the real estate market of these regions.

Development of Sydney

Sydney is the economic and cultural center of Australia. It is made up of 658 suburbs, 40 local government areas and 15 contiguous regions. Sydney has an advanced market economy with strengths in finance, manufacturing and tourism. It is promoted as one of Asia Pacific's leading financial hubs due to a significant concentration of multinational corporations.

According to the Australian Bureau of Statistics, Sydney had a population of approximately 5.1 million at the end of 2017. In 2017, its GDP reached approximately A\$418 billion, representing a per capita GDP of A\$81,300. The table below sets forth selected economic indicators relating to Sydney for the years indicated:

	Sydney									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (AUD Bn)	306	309	316	323	333	341	349	361	371	418
Per Capita GDP (AUD)	69,203	68,706	69,296	69,926	71,148	71,433	71,823	72,992	73,740	81,300
Per Capita Disposable Income (AUD)	45,585	46,208	47,131	48,672	49,346	50,001	50,854	51,369	51,030	N/A

Sources: Australian Bureau of Statistics

Residential properties industry has experienced continuous development over the past decade, with both house price and properties sold showing an upward trend. The table below illustrates key figures relating to the residential real estate market in Sydney for the years indicated:

	Sydney									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
House Price Index	85.1	96.8	102.2	98.9	103.4	119.9	133.4	151.9	167.6	174.0
Apartment Properties Sold Index	N/A	1	2	2	1	1	2	5	5	N/A

Sources: Australian Bureau of Statistics, Real Capital Analytics

Nanchang

Nanchang is the capital of Jiangxi Province in southeastern China. Due to its central location relative to the Yangtze River Delta and Pearl River Delta regions, it is a major railroad hub and a regional hub for agricultural production in Jiangxi Province.

According to the Nanchang Municipal Bureau of Statistics, Nanchang had a population of approximately 5.5 million as of the end of 2017. In 2017, its GDP reached approximately RMB500 billion, representing a per capita GDP of RMB91,575. The table below sets forth selected economic indicators relating to Nanchang for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (RMB in billion)	166	184	221	269	300	334	367	400	440	500
Per capita GDP (RMB)	36,105	39,669	47,174	53,023	58,715	64,678	70,373	75,879	82,472	91,575
Per capita disposable income of urban households (RMB)	15,112	16,472	18,276	20,741	23,602	26,151	29,091	31,942	34,619	

Source: Nanchang Municipal Bureau of Statistics

The GFA of completed residential properties in Nanchang was approximately 3.9 million sq.m. in 2017, representing an increase of approximately 15.0% over 2016. The total residential GFA sold in Nanchang was approximately 16.1 million sq.m. in 2017, representing an increase of approximately 29.4% over 2016, while the average selling price increased by approximately 5.2% from approximately RMB7,707 per sq.m. in 2016 to approximately RMB8,106 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Nanchang for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	3.0	3.3	3.1	3.9	3.3	3.1	4.3	3.5	3.4	3.9
Total GFA of commodity properties (residential) sold (million sq.m.)	3.3	4.6	4.9	4.4	6.0	N/A	7.5	8.2	12.4	16.1
Average selling price of commodity properties (residential) (RMB per sq.m.)	3,361	3,637	4,331	5,323	5,880	N/A	6,225	6,955	7,707	8,106

Source: China Statistic Yearbook

Local restrictive measures

In January 2011, the Nanchang municipal government issued the Notice on Further Implementation of the Supplemental Opinions on General Real Estate Control Policies and Help the Stable and Healthy Growth of the Real Estate Market (關於進一步貫徹落實國家宏觀調控政策促進房地產市場平穩健康有序發展的補充意見的通知), pursuant to which each household is allowed to purchase only one new residential property in the five downtown areas of Nanchang city after February 1, 2011.

In February 2011, the Nanchang municipal government further issued Opinions on Nanchang City's Implementation of State Council's Notice on Further Conducting Real Estate Market Control Work (南昌市貫徹落實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意見), pursuant to which, for purchases of properties in Nanchang city:

- i. the minimum down payment in respect of mortgage loans on purchase of the second residential properties is 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate; and
- ii. it is not allowed to sell properties to the Nanchang resident households who have already purchased two or more residential properties or non-Nanchang resident households who have purchased one or more residential properties or non-Nanchang resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

In December 2013, the Nanchang Central Sub-branch of the PBOC promulgated the Notice of Adjusting the Differentiated Credit Extension Policies Based on Housing Types in Nanchang City (關於調整南昌市差別化住房信貸政策的通知), which raises the percentage of the minimum down payment for second-home purchases from 60% to 70% of the total purchase price from December 15, 2013.

In October 2016, the General Office of Nanchang municipal government issued the Several Opinions on Facilitating the Continuous Stable and Healthy Development of the Real Estate Market (關於促進我市房地產市場持續平穩發展的若干意見), which introduces a quota policy of housing purchase within specific region, sets the minimum down payment ratio in respect of commercial mortgage loans for the first home purchasers to 30%, and suspends the mortgage loans lending to non-resident households for second residential housing purchases or to any third residential housing purchasers.

In March 2017, the General Office of Nanchang municipal government issued the Notice of Further Improving Control over the Residential Real Estate Market (關於進一步做好房地產住宅市場調控工作的通知), which places further restrictions on the mortgage loans.

In September 2017, the General Office of Nanchang municipal government issued the Notice of Further Strengthening Control over the Residential Real Estate Market (關於進一步加強房地產住宅市場調控工作的通知), which provides that from September 23, 2017, all newly traded residential properties in the whole Nanchang city shall not be transferred again within two years after obtaining the property ownership certificate.

Tianjin

Tianjin is one of the four centrally-administered municipalities in the PRC. Tianjin is strategically located in the Bohai Economic Rim region with an area of approximately 11,947.0 sq.km.

According to the Tianjin Municipal Bureau of Statistics, Tianjin had a population of approximately 15.6 million at the end of 2017. In 2017, its GDP reached approximately RMB1,860 billion, representing a per capita GDP of RMB119,441. The table below sets forth selected economic indicators relating to Tianjin for the years indicated.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP										
(RMB in billion)	635	750	911	1,119	1,289	1,437	1,573	1,654	1,789	1,860
Per capita GDP (RMB)	55,473	62,403	70,402	82,616	91,181	97,609	105,231	107,960	114,494	119,441
Per capita disposable income of urban households										
(RMB)	19,423	21,430	24,293	26,921	29,626	32,658	28,844	31,195	33,616	37,022

Source: Tianjin Municipal Bureau of Statistics

The GFA of completed residential properties in Tianjin was approximately 14.7 million sq.m. in 2017, representing a decrease of approximately 32.8% over 2016. The total residential GFA sold in Tianjin was approximately 14.8 million sq.m. in 2017, representing a decrease of approximately 41.2% over 2016, while the average selling price increased by approximately 17.6% from approximately RMB12,870 per sq.m. in 2016 to approximately RMB15,139 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Tianjin for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	14.9	15.8	16.0	16.5	19.1	21.2	21.3	21.8	21.9	14.7
Total GFA of commodity properties (residential) sold (million sq.m.)	11.4	14.6	13.0	13.7	15.1	N/A	14.8	16.7	25.2	14.8
Average selling price of commodity properties (residential) (RMB per sq.m.)	5,598	6,605	7,940	8,548	8,010	N/A	8,828	9,931	12,870	15,139

Source: China Statistic Yearbook

Local restrictive measures

In February 2011, the General Office of Tianjin municipal government issued the Notice on Implementation of the Spirit of the Document of the General Office of the State Council and Further Carrying Out Well the Real Estate Control Policies In Our City (關於貫徹國務院辦公廳文件精神進一步做好我市房地產市場調控工作實施意見的通知). Pursuant to the Notice, the minimum down payment in respect of mortgage loans on purchase of second residential properties is 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate.

Moreover, (i) Tianjin resident households who have already purchased one residential property and (ii) non-Tianjin residents who are able to provide one year's tax payment certificate and social security payment certificate are only allowed to purchase one residential property per household. No properties are allowed to be sold to (a) Tianjin resident households who have already purchased two or more residential properties, (b) non-Tianjin resident households who have purchased one or more residential properties or (c) non-Tianjin resident households who are unable to provide a local tax payment certificate or social security certificate for more than one year.

In September 2016, the General Office of Tianjin municipal government issued the Opinion of Further Improving Stable and Healthy Development of the Real Estate Market (關於進一步促進我市房地產市場平穩健康發展的實施意見), which restricts any non-resident households with one or more residential properties in Tianjin to purchase another residential property within specific areas of the city.

In March 2017, the General Office of Tianjin municipal government issued the Opinion of Further Improving Control over the Real Estate Market (關於進一步深化我市房地產市場調控工作的實施意見), which blocks non-residential second home purchasers, residential third home purchasers, and any unmarried or divorced persons holding at least one residential property to purchase another residential property in Tianjin city except Binhai New District.

Jinan

Jinan is the capital city of Shandong province. The city, which holds sub-provincial administrative status and a major regional economic and transportation hub, is about 400 kilometers from Beijing with an area of 8,177.0 million sq.m.

According to the Jinan Municipal Bureau of Statistics, Jinan had a population of approximately 7.3 million at the end of 2017. In 2017, its GDP reached approximately RMB720 billion, representing a per capita GDP of RMB98,967. The table below sets forth selected economic indicators relating to Jinan for the years indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Nominal GDP										
(RMB in billion) . . .	302	335	391	441	481	523	577	610	654	720
Per capita GDP (RMB) . .	45,724	50,376	57,947	64,331	69,574	74,725	82,052	85,919	90,999	98,967
Per capita disposable income of urban households (RMB) . . .	20,802	22,722	25,321	28,892	32,570	35,648	38,763	39,889	33,909	36,872

Sources: Jinan Municipal Bureau of Statistics; Shandong Yearbook

The GFA of completed residential properties in Jinan was approximately 4.9 million sq.m. in 2017, representing a decrease of approximately 38.8% over 2016. The total residential GFA sold in Jinan was approximately 9.7 million sq.m. in 2017, representing a decrease of approximately 20.8% over 2016, while the average selling price increased by approximately 15.6% from approximately RMB8,405 per sq.m. in 2016 to approximately RMB9,712 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Jinan for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	2.3	3.7	2.0	4.2	3.7	6.1	3.8	3.7	8.0	4.9
Total GFA of commodity properties (residential) sold (million sq.m.)	3.3	4.0	4.8	5.4	5.6	N/A	7.2	9.2	12.3	9.7
Average of commodity properties (residential) selling price (RMB per sq.m.)	4,155	4,790	6,100	6,664	6,651	N/A	7,158	7,527	8,405	9,712

Source: *China Statistic Yearbook*

Local restrictive measures

In January 2011, the Jinan municipal government issued the Notice on the Further Implementation of the Real Estate Control Policies and Helping the Stable and Healthy Growth of the Real Estate Market (關於進一步貫徹落實房地產調控政策促進房地產市場健康平穩發展的通知), pursuant to which the minimum down payment in respect of mortgage loans on purchase of the residential properties is 30% of the purchase price, the purchase of second residential properties is increased to 50% of the purchase price; and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. Further, each Jinan or non-Jinan resident household is allowed to purchase only one new residential property in the seven downtown area of the Jinan city until December 31, 2011.

In February 2011, the General Office of Shandong Province government issued the Notice on Implementation of the Guo Ban Fa [2011] No.1 and Further Improving and Strengthening the Real Estate Control Policies (關於貫徹國辦發[2011]1號文件進一步改進和加強房地產市場調控的通知). Pursuant to the Notice, in principle, it is not allowed to sell properties (i) to the Jinan resident households who have purchased two or more residential properties or (ii) to non-Jinan resident households who have purchased one or more residential properties or non-Jinan resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

In October 2016, the General Office of Jinan municipal government issued the Notice of Further Strengthening Control over the Real Estate Market (關於進一步加強房地產市場調控工作的通知), pursuant to which the minimum down payment ratio for commercial mortgage loans would be raised from 20% to 30% for first home purchasers, and the minimum down payment ratio for commercial mortgage loans would be raised from 30% to 40% for second home purchasers. Non-residential households can only purchase one residential property and residential households can hold up to three residential properties.

In April 2017, the General Office of Jinan municipal government issued the Notice of Further Perfecting the Control Policies to Improve the Stable and Healthy Development of Real Estate Market (關於進一步完善調控措施促進我市房地產市場平穩健康發展的通知), pursuant to which the minimum down payment ratio for commercial mortgage loans would be raised to 60% for non-residential households, and from the date of such notice, all newly traded residential properties in specific areas shall not be transferred again within 2 years after obtaining the property ownership certificate.

Yantai

Yantai is a prefecture-level city in Shandong Province. Located on the southern coast of Bohai sea and the eastern coast of Laizhou Bay, Yantai is a robust economic center in the Bohai Economic Rim region.

According to the Yantai Municipal Bureau of Statistics, Yantai had a population of approximately 7.1 million at the end of 2017. In 2017, its GDP reached approximately RMB734 billion, representing a per capita GDP of RMB103,706. The table below sets forth selected economic indicators relating to Yantai for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (RMB in billion)	343	372.9	436	491	528	561	600	645	693	734
Per capita GDP (RMB)	49,012	53,066	62,264	70,339	75,672	80,358	85,795	91,979	98,389	103,706
Per capita disposable income of urban households (RMB)	19,350	21,125	23,288	26,542	30,045	32,956	33,309	35,907	38,7444	41,837

Source: Yantai Municipal Bureau of Statistics

The total residential GFA sold in Yantai was approximately 9.5 million sq.m. in 2017, representing an increase of approximately 15.7% over 2016, while the average selling price increased by approximately 9.9% from approximately RMB5,682 per sq.m. in 2016 to approximately RMB6,242 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Yantai for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	2.3	3.9	3.1	4.5	4.0	N/A	N/A	N/A	4.0	3.0
Total GFA of commodity properties (residential) sold (million sq.m.)	5.6	6.3	10.4	11.8	9.6	N/A	6.9	6.7	8.2	9.5
Average selling price of commodity properties (residential) (RMB per sq.m.)	3,242	3,748	3,954	4,834	5,265	N/A	5,689	5,624	5,682	6,242

Sources: Yantai Statistic Yearbooks, China Regional Statistic Yearbook

Local restrictive measures

In August 2017, the General Office of Yantai municipal government issued the Opinion of Further Improving the Healthy Development of Real Estate Market (關於進一步促進房地產市場健康發展的意見), which sets the minimum down payment ratio for housing provident funding loans at 30% for first home purchasers and 40% for second home purchaser, and the interest rate of the housing provident funding loan for the second home shall not be lower than that of the housing provident funding loan for the first home.

Hefei

Hefei is the capital of Anhui Province. It is located in the central region of China between Yangtze and Huaihe Rivers and is close to the fast developing Yangtze River Delta Region. The city covers an area of 7,029 sq.km. It possesses a strategically important location easily accessible from all directions of the country, and connects the vast area of Central China.

According to the Hefei Municipal Bureau of Statistics, Hefei had a population of approximately 8.0 million at the end of 2017. In 2017, its GDP reached approximately RMB721 billion, representing a per capita GDP of RMB91,113. The table below sets forth selected economic indicators relating to Hefei for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (RMB in billion)	167	210	270	364	416	467	518	566	627	721
Per capita GDP (RMB)	34,482	41,543	47,392	48,563	55,186	61,555	67,689	73,102	80,138	91,113
Per capita disposable income of urban households (RMB)	15,591	17,158	19,051	22,459	25,434	28,083	29,348	31,989	34,852	37,972

Source: Hefei Municipal Bureau of Statistics

The GFA of completed residential properties in Hefei was approximately 7.8 million sq.m. in 2017, representing a decrease of approximately 9.4% over 2016. The total residential GFA sold in Hefei was approximately 9.6 million sq.m. in 2017, representing an decrease of approximately 43.7% over 2016, while the average selling price increased by approximately 22.9% from approximately RMB9,312 per sq.m. in 2016 to approximately RMB11,442 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Hefei for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	4.6	4.8	5.8	6.6	7.3	10.7	7.0	7.1	8.6	7.8
Total GFA of commodity properties (residential) sold (million sq.m.)	8.7	11.8	8.6	10.6	11.2	N/A	13.3	12.9	17.1	9.6
Average selling price of commodity properties (residential) (RMB per sq.m.).	3,425	4,095	5,502	5,608	5,754	N/A	6,917	7,512	9,312	11,442

Source: China Statistic Yearbook

Local restrictive measures

In June 2016, the General Office of Hefei municipal government issued the Notice of Further Improving Control over the Residential Real Estate Market (關於進一步做好我市房地產住宅市場調控工作的通知), which provides that the minimum down payment ratio for commercial individual loans is 25% for first home purchasers, but in other situation, the minimum down payment ratio for commercial individual loans would be varied from 40% to 60%.

In October 2016, the General Office of Hefei municipal government forwarded the Opinion of Further Improving the Stable and Healthy Development of Real Estate Market (關於進一步促進我市房地產市場平穩健康發展的意見) jointly issued by multiple local authorities, which raises the minimum down payment ratio for commercial individual loans to 30% for first home purchasers and suspends the commercial individual loans lending to the residential households with two or more residential properties and non-residential households with one or more residential properties.

Xianyang

Xianyang is a prefecture-level city in Shanxi Province. It borders with the capital of Shanxi, Xi'an, to the east and shares the same international airport with Xi'an. It's part of the Xi'an metropolitan area, one of the main urban agglomerations in inland China. This integration with Xi'an was further supported by the recent governmental initiative of "Integration of Xi'an and Xianyang."

According to the Xianyang Municipal Bureau of Statistics, Xianyang had a population of approximately 4.4 million at the end of 2017. In 2017, its GDP reached approximately RMB234 billion, representing a per capita GDP of RMB53,546. The table below sets forth selected economic indicators relating to Xianyang for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (RMB in billion)	76	87	110	136	162	186	208	216	240	234
Per capita GDP (RMB)	15,286	17,429	21,900	27,705	32,847	37,695	41,971	43,426	48,016	53,546
Per capita disposable income of urban households (RMB)	13,208	16,404	18,914	22,224	25,758	30,374	27,137	29,425	31,662	34,246

Source: Xianyang Municipal Bureau of Statistics

The total residential GFA sold in Xianyang was approximately 1.8 million sq.m. in 2017, representing a decrease of 14.0% over 2016, while the average selling price decrease by approximately 5.4% from approximately RMB4,030 per sq.m. in 2016 to approximately RMB4,262 per sq.m. in 2015.

The table below illustrates key figures relating to the residential real estate market in Xianyang for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	0.7	0.5	0.9	0.9	0.2	N/A	N/A	N/A	N/A	N/A
Total GFA of commodity properties (residential) sold (million sq.m.)	1.0	1.3	2.1	2.1	1.4	2.0	2.2	2.2	2.0	1.8
Average selling price of commodity properties (residential) (RMB per sq.m.)	2,290	2,719	3,749	2,108	3,761	N/A	4,182	4,262	4,030	N/A

Sources: Xianyang Statistic Yearbooks

Local restrictive measures

As of the date of this offering memorandum, the local government of Xianyang has not issued notices or implemented any local regulations to carry out more restrictive measures than nationwide restrictions on purchases of properties in Xianyang.

Shenzhen

Shenzhen is a sub-provincial level city situated immediately north of Hong Kong in Guangdong Province. The country's first special economic zone - the brainchild of late Chinese leader Deng Xiaoping - was established in Shenzhen in 1980. Covering 1,991.64 square kilometers of land, Shenzhen has been a touchstone for China's reform and opening-up policy since then and has become an economic powerhouse of Southern China.

According to the Shenzhen Municipal Bureau of Statistics, Shenzhen had a population of approximately 12.5 million at the end of 2017. In 2017, its GDP reached approximately RMB2,244 billion, representing a per capita GDP of RMB183,127. The table below sets forth selected economic indicators relating to Shenzhen for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (RMB in billion)	781	820	951	1,150	1,295	1,450	1,600	1,750	1,949	2,244
Per capita GDP (RMB)	89,814	92,771	98,711	110,387	123,247	136,947	149,495	157,985	167,411	183,127
Per capita disposable income of urban households (RMB)	26,729	29,244	32,380	36,505	40,742	44,653	40,948	44,633	48,695	52,938

Source: Shenzhen Bureau of Statistics

The GFA of completed residential properties in Shenzhen was approximately 1.8 million sq.m. in 2017, representing a decrease of approximately 34.5% over 2016. The total residential GFA sold in Shenzhen was approximately 6.7 million sq.m. in 2017, representing an increase of approximately 1.7% over 2016, while the average selling price increased by approximately 6.9% from RMB45,498 in 2016 to approximately RMB48,622 per sq.m. in 2017.

The table below illustrates key figures relating to the residential real estate market in Shenzhen for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total GFA of residential properties completed (million sq.m.)	4.4	2.7	2.5	2.3	2.9	2.0	2.7	2.0	2.8	1.8
Total GFA of commodity properties (residential) sold (million sq.m.)	4.1	7.2	4.1	4.7	4.9	N/A	4.7	7.5	6.6	6.7
Average selling price of commodity properties (residential) (RMB per sq.m.)	12,823	14,389	18,954	21,037	18,996	N/A	24,040	33,661	45,498	48,622

Source: China Statistic Yearbook

Local restrictive measures

Subject to the Supplementary Circular of the Office of Shenzhen Municipal People's Government on Further Implementation of the Circular by State Council for Strict Control on Excessive Growth of Housing Price (關於進一步貫徹落實國務院文件精神堅決遏制房價過快上漲的補充通知) (Shen Fu Ban [2010] No.82) promulgated and implemented by the Shenzhen municipal people's government on September 30, 2010, a household with a local registered residence of Shenzhen shall only be allowed to purchase up to two houses in Shenzhen, while a household without a local registered residence of Shenzhen is only allowed to purchase one house, if the latter could provide tax payment proof or social insurance payment proof evidencing at least 12 months of continuous payment. Any household who falls into any of the following cases is not allowed to purchase any house in Shenzhen temporarily: (i) any household with a local registered residence of Shenzhen who already owned two or more houses, or (ii) any household without a local registered residence of Shenzhen who already owned one or more houses, or (iii) any household without a local registered residence of Shenzhen who could not provide eligible tax payment proof or social insurance payment proof.

Pursuant to the Circular of the Office of Shenzhen People's Government on Further Improvement of Control over Our Real Estate Market to Guarantee the Annual Target of Controlling New Housing Price (深圳市人民政府辦公廳關於進一步做好我市房地產市場調控工作確保年度新建房價控制目標的通知) (Shen Fu Ban [2011] No.30) promulgated and implemented by the Shenzhen municipal people's government on March 29, 2011, the tax payment proof provided by any household without a local registered residence of Shenzhen at the time of house purchase must fulfill the condition of continuous payment in the recent 12 months or more (excluding delayed payment). For the social insurance payment proof provided by any household without a local registered residence at the time of house purchase, it must satisfy one of the following conditions: (i) the continuous payment of pension and medical insurance in the recent 12 months or more; (ii) the continuous payment of pension and work injury insurance in the recent 12 months or more; (iii) the continuous payment of medical insurance and work injury insurance in the recent 12 months or more.

On October 31, 2013, the Shenzhen Central Sub-branch of the PBOC promulgated the Notice of Adjusting the Differentiated Credit Extension Policies Based on Housing Types in Shenzhen City (關於調整深圳市差別化住房信貸政策的通告), which raises the percentage of the minimum down payment for second-house purchase from 60% to 70% of the total purchase price effective as of November 6, 2013.

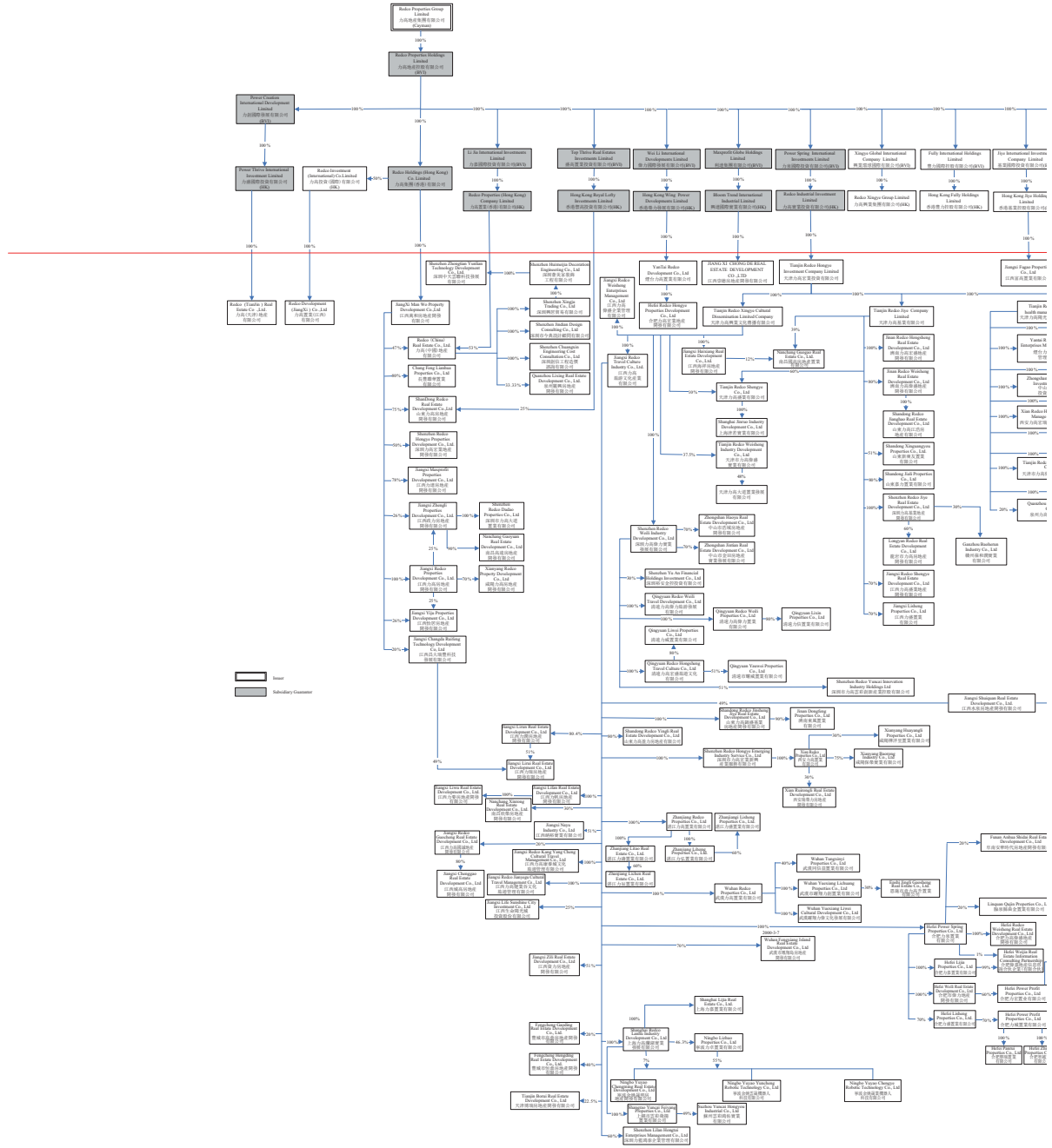
In March 2016, the General Office of Shenzhen municipal government issued the Opinion of Perfecting Housing Security System and Improving the Stable and Healthy Development of Real Estate Market (關於完善住房保障體系促進房地產市場平穩健康發展的意見), pursuant to which the minimum down payment ratio for the mortgage loans is 30% for purchasers without any residential housing in Shenzhen and any record of residential property loans in the past two years, and the minimum down payment ratio for the mortgage loans is 40% for (1) purchasers having no residential housing in Shenzhen but with record of residential property loans in the past two years; or (2) purchasers having one residential property in Shenzhen without existing housing loans.

Competition in the real estate market of the PRC

We believe that the real estate market in the PRC is highly fragmented. Competition in the real estate market in the PRC has intensified over the past few years. Industry participants in different cities in the PRC include national, regional and local real estate developers. We compete with other real estate developers on the basis of a number of factors, including product quality, service quality, price, financial resources, brand recognition, ability to acquire land and other factors. As a China Top 100 real estate developer, we primarily compete with other China Top 100 real estate developers who focus on residential property development in the PRC. Our competitors may have more experience and resources than we do. We believe that the real estate market in the PRC still has large growth potential. We believe major barriers to enter into these markets include a potential new entrant's limited knowledge of local property market conditions and limited brand recognition in these markets. We believe that, with our solid experience in real estate development since we commenced property development operations in 1995, our strategic focus on cities with high GDP growth and population growth potential, our reputable brand name and our effective management team, we are able to react promptly and effectively to challenges in the PRC property market. Please refer to the section headed "Business — Competition" in this offering memorandum for further details on the competitive landscape of the real estate market in the PRC.

CORPORATE STRUCTURE

The following chart illustrates our simplified corporate structure as of the date of this offering memorandum:



BUSINESS

OVERVIEW

We are an integrated residential and commercial property developer primarily focusing on residential property development in the PRC. We have successfully established our presence in a number of key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region, including Shenzhen, Zhongshan, Shanghai, Tianjin, Hefei, Nanchang, Jinan, Wuhan, Ningbo, Yantai and Xianyang and Xi'an.

We have successfully established our “Redco” brand in the cities where we have built our presence. In 2018, we were recognized as “2018 PRC Investment Value Real Estate Enterprise” (2018 中國年度投資價值地產企業) by Guandian.cn (觀點地產新媒體). In 2017, we were recognized as “Top 100 Comprehensive Strength Listed Real Estate Enterprise of China for 2017” (2017年中國房地產上市公司綜合實力100強) by China Real Estate Association (中國房地產協會). In 2016, we were recognized as “the Most Valuable Listed Real Estate Enterprise of China for 2016” (2016 中國最具價值地產上市企業) by Guandian.cn (觀點地產新媒體). In 2015, we were recognized as “2015 Top 10 Hong Kong Listed Domestic Developers Worthy of Investment” (2015中國大陸在港上市房地產公司投資價值TOP 10) by the Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院). In addition, our property projects have also received numerous awards from different organizations. We have been selected as a constituent of the “Hang Seng Composite SmallCap Index of the Hang Seng Composite Index since September 4, 2017.

Since we commenced property development operations in 1995, we have successfully executed our multi-regional strategy and demonstrated a proven track record of success by developing in strategically selected cities that we believe possess high growth potential across the PRC. During the year ended December 31, 2018, we recognized revenue from property development and investment projects covering certain key economic cities in China. As of December 31, 2018, we had 56 property development and investment projects with an aggregate GFA of approximately 10.0 million sq.m.



● Cities with property development projects from which we recognized revenue during 2016, 2017 and 2018

- **The Greater Western Taiwan Straits Economic Zone**

In the Greater Western Taiwan Straits Economic Zone, we have strategically targeted the key economic cities including Nanchang, and Quanzhou. Nanchang is the provincial capital of Jiangxi Province. As of December 31, 2018, we had a land bank comprising 19 property development and investment projects in the Greater Western Taiwan Straits Economic Zone with an aggregate GFA of 2,730,314 sq.m.

- **The Bohai Economic Rim**

In the Bohai Economic Rim, we have property development projects in Tianjin, Jinan and Yantai. Tianjin is one of the four centrally-administered municipalities in the PRC, Jinan is the provincial capital of Shandong Province and Yantai's nominal GDP ranked third in Shandong Province in 2016. As of December 31, 2018, we had a land bank comprising 15 property development and investment projects in the Bohai Economic Rim with an aggregate GFA of 3,300,196 sq.m.

- **The Central and Western Regions**

In the Central and Western Regions, we have property development projects in Hefei, Fuyang, Xianyang, Nantong, Suzhou, Lianyungang, Ningbo, and Wuhan. Hefei is the provincial capital of Anhui Province. Under the government initiative, "Integration of Xi'an and Xianyang", favorable governmental policies are being implemented to allow Xi'an and Xianyang to develop into an integrated central commercial hub in Western China. In 2016, the combined nominal GDP of Xi'an and Xianyang ranked first in Shaanxi Province. As of December 31, 2018, we had a land bank comprising 17 property development projects in the Central and Western Regions with an aggregate GFA of approximately 3,439,747 sq.m.

- **The Pearl River Delta Region**

In the Pearl River Delta Region, we have property development projects in Shenzhen, Foshan and Zhongshan. Shenzhen is a first-tier city in China, and Foshan and Zhongshan are fast-growing cities in East Guangdong. In 2016, Shenzhen's nominal GDP ranked fourth among all cities in China. In 2017 and 2018, Shenzhen's nominal GDP increased from RMB2.2 trillion to RMB2.5 trillion, ranking the third among all cities in China. As of December 31, 2018, we had a land bank comprising four property development projects in the Pearl River Delta Region with an aggregate GFA of 469,577 sq.m.

- **Others**

In addition to the four major regions above, we have also established our presence Sydney, the economic and cultural center of Australia. As of December 31, 2018, we had a land bank comprising one property development projects in Sydney with an aggregate GFA of 56,579.0 sq.m.

While we continue to strengthen our market position in strategically targeted key economic cities in these regions, we intend to leverage our experience and expertise to expand our operations and replicate our success in other cities with high GDP and population growth potential where we do not have any presence currently. We believe that our strategic focus on the selected key economic cities with high growth potential will enable us to benefit from the sustained economic growth and accelerating urbanization in these cities in the coming years.

We have established diversified land acquisition strategies that complement each other, including acquisitions from third parties and listings-for-sale. We have also employed other land acquisition strategies including: (i) incorporating cultural concepts to develop properties that meet the needs of the local communities; (ii) early involvement in areas encouraged by the local governments; leveraging on our track record in developing quality property projects to acquire additional land in the same geographical area; (iv) acquisition of local property developers that have a land reserve suitable for our development strategy; and (v) incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of the local communities.

For example, we successfully incorporated the cultural concept of the Mazu goddess (媽祖) to acquire land in Tianjin, a coastal city in the Bohai Economic Rim. Through Mr. Wong's strong ties with various Mazu cultural organizations, we gained deep insights into the importance of Mazu culture in Tianjin. Leveraging on such knowledge and in line with the Tianjin local government's desire to facilitate Mazu culture and economic development in Taiwan and the PRC, we formed a joint venture company with the largest Mazu worshipping temple in Taiwan to acquire our first parcels of land in coastal Tianjin for our Sunshine Coast and Land Lot Nos. A1 and A2 projects.

COMPETITIVE STRENGTHS

We have demonstrated a proven track record of multi-regional success by focusing on key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region

We have demonstrated a track record of success in the execution of our multi-regional business model since we commenced property development operations in 1995. Among property developers in China, we were an early adopter of a multi-regional expansion strategy. Subsequent to our initial success in Quanzhou, Fujian Province, we made the deliberate strategic decision to expand our business in 1999 to other cities where we had identified opportunities.

In our recent expansion, we strategically targeted key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region. These include the municipality of Tianjin, Shanghai and Shenzhen, provincial capital cities such as Nanchang, Hefei and Jinan, as well as other cities in these regions such as Zhongshan, Xianyang and Yantai. With high GDP and population growth potential, these cities present profitable opportunities for property development. We will continue to benefit from the favorable macroeconomic environment in the PRC, including sustained economic growth and accelerating urbanization in the cities that we have strategically targeted. Generally, we have focused on developing mid-to-high-end properties, which we believe meet the needs of the growing middle class in these cities looking to either purchase their first homes or upgrade their living environment.

Our relatively early expansion into various cities in these regions has allowed its management to gain valuable experience in the course of overcoming the multitude of challenges associated with developing properties across multiple regions and cities. Over the years, we have accumulated extensive knowledge of the mechanisms of developing a new market as well as the business environment and particularities of each of the local markets it has entered into. We have also developed extensive working relationships with the respective local governments and business partners, including reputable design firms such as AECOM and Belt Collins. We believe that such knowledge and relationships will serve as a solid foundation to support the execution of our multi-regional strategy as we expand.

We have acquired quality land bank at competitive costs

We have established diversified land acquisition strategies that complement each other, which enabled us to acquire land at competitive costs. In 2016, 2017 and 2018, our average land acquisition cost per sq.m. delivered represented 35%, 29.6% and 15.4%, respectively, of our average selling price for the respective periods.

Historically, we primarily acquired land through acquisition from third parties and listings-for-sale. We have generally been able to acquire land from original project owners who typically were able to make land acquisitions at an early stage when land costs were relatively low. We have also employed diversified land acquisition strategies to acquire land at competitive costs by selectively engaging in property development projects that we believe are compatible with local government policies or other local interests. In particular, our land acquisition strategies include: (i) incorporating cultural concepts to develop properties that meet the needs of the local communities; (ii) early involvement in areas encouraged by the local governments; (iii) leveraging on our track record in developing quality property projects to acquire further land in the same geographical area; (iv) acquisition of local property developers that have a land reserve suitable for its development strategy; and (v) incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of the local communities.

For example, we successfully introduced the cultural concept of the Mazu goddess to acquire land in Tianjin. Mazu is considered the most influential and widely worshiped goddess of the sea among coastal Chinese people. Through Mr. Wong's strong ties with Mazu cultural associations, it gained deep insights into the importance of Mazu culture to Tianjin, a coastal city in the Bohai Economic Rim. Leveraging such knowledge and in line with the Tianjin local government's desire to facilitate Mazu culture and economic development in Taiwan and the PRC, we formed a joint venture company with the largest Mazu worshipping temple in Taiwan to acquire our first parcels of land in coastal Tianjin for its Sunshine Coast and Land Lot Nos. A1 and A2 projects.

We also succeeded in acquiring land at competitive costs through early involvement in areas encouraged by the respective local governments in Yantai and Jinan. Moreover, we successfully leveraged on our track record in developing quality property projects to acquire further land in the same geographical area. Our past success in building quality property developments in a targeted city demonstrates our commitment to growing together with the city, thereby placing us in a competitive position to acquire further land for development.

Furthermore, we obtained the land for Nanchang Imperial Mansion and Nanchang Imperial Metropolis by acquiring local property development companies that held such land at that time. Acquiring land through acquisition of local developers that hold suitable land reserve will expand the scope of land we can acquire for property development and make us better able to find the right site. We also plan to acquire land by incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of local communities and to implement our strategy to provide full-cycle services to home buyers.

Set forth below is a summary of our land bank in terms of GFA in the respective regions as of December 31, 2018:

Region	Total GFA
	(sq.m.)
The Greater Western Taiwan Straits Economic Zone	2,730,314
The Bohai Economic Rim	3,300,196
The Central and Western Regions	3,439,747
Pearl River Delta Region	469,577
Others	<u>56,579</u>
Total	<u><u>9,996,413</u></u>

We have been successful in establishing the “Redco” brand in the cities where we have built up our presence

In 2018, we were recognized as “2018 PRC Investment Value Real Estate Enterprise” (2018中國年度投資價值地產企業) by Guandian.cn (觀點地產新媒體). In 2017, we were recognized as “Top 100 Comprehensive Strength Listed Real Estate Enterprise of China for 2017” (2017年中國房地產上市公司綜合實力100強) by China Real Estate Association (中國房地產業協會). In 2016, the Group was recognized as “the Most Valuable Listed Real Estate Enterprise of China for 2016” (2016中國最具價值地產上市企業) by Guandian.cn (觀點地產新媒體). In 2015, we were recognized as “2015 Top 10 Hong Kong Listed Domestic Developers Worthy of Investment” (2015中國大陸在港上市房地產公司投資價值TOP 10) by the Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and the China Index Academy (中國指數研究院).

Our strong and growing reputation is partly attributable to our emphasis on the design and quality of our property development projects. We aim to maximize the value of each parcel of land by constructing properties suiting our particular features as well as local preferences. Over the years, we have engaged a number of professional design firms for our projects enhancing the quality of design of our property projects which in turn boosts the recognition of its “Redco” brand. We have also leveraged the landmark properties we have built to enhance our brand image. A prime example is our Crowne Plaza Nanchang Riverside Hotel, the first international five-star hotel in Jiangxi Province, which is located adjacent to our Crown International project in Nanchang.

Our property development projects have received recognitions for our quality and designs. For example, Bluelake County in Shandong was recognized as “Charming and Fashion Real Estate Community in Shandong” (山東地產魅力時尚社區) in 2016 by Shandong Daily (山東商報) for being a well-known, well received and stylish property project; and the Sunshine Coast in Yantai was recognized as “2016 Property Received the Most Attention in Yantai” (2016年煙台最受關注樓盤) by Ythouse.com (煙台房地產網) owing to our personalized design, attention to details and quality construction materials.

Our standardized property designs and business protocols allow us to swiftly capture new market opportunities in the key economic cities

We have accumulated over the years a diverse portfolio of standardized property designs and business protocols that give us the flexibility to expand quickly in the key economic cities that we have targeted. In particular, we have been focusing on three well-defined property series: (i) city-center apartment developments; (ii) integrated multi-purpose developments with residential and commercial properties; and (iii) “ecological-city” styled residential developments comprising

multi-story apartments and high-rise residential apartments and ancillary facilities. We actively fine-tune the concepts and designs for each individual project so that we consistently maintain the quality of our product offerings. Our standardized property designs and business protocols allow us to swiftly capture new market opportunities in the key economic cities.

We have implemented prudent financial management policies with diversified financing channels

We have been able to maintain our financial performance through prudent financial management. We have implemented various financial policies to maintain adequate cash flow. We closely monitor our capital structure, assets and indebtedness, actively explore diversified financing sources, including bank loans, equity and debt financing, to control financing costs and maintain a prudent gearing ratio. As of December 31, 2016, 2017 and 2018, our net gearing ratio, calculated as net debt (total borrowings less cash and bank balance (including cash and cash equivalent and restricted cash)), divided by total capital (calculated as total equity plus net debt), was approximately 0.8%, 33.7% and 32.4%, respectively.

We have established cooperative relationships with, and received loans and financings from, major PRC and international banks. Through our initial public offering in 2014 and the offering of the 2014 Notes, the 2017 Notes, the February 2018, the August 1 2018 Note, the August 29 2018 Notes and the January 2019 Notes, we have able to further diversify our financing sources and obtain funding through accessing the domestic and international capital markets.

We also take a prudent approach towards investment. We have established comprehensive investment management procedures. We set our budget for capital expenditure and submit our capital expenditure plan to board of directors for review and approval. When making an investment decision, we consider various factors, including investment return, integration and synergies with our existing core business, improvement of overall business performance and management of risks.

Our multiple financing channels will provide us with flexibility to fund its operations and enhance our liquidity position. Our prudent financial policies will enable us to further expand in our target markets, provide us with greater flexibility in capital management and help us achieve sustainable long-term growth.

We provide full life-cycle services to clients leveraging the brand recognition

We provide full life-cycle services in response to various customer needs to enhance the value and competitiveness of our property development projects. We build the elements of healthcare, cultural tourism and education into our property development projects to achieve synergies across the value chain. We have established a one-stop education eco-system which provides education resources and services to customers of all ages, with a coverage from kindergarten to university of the third age. We integrate tourist attractions and commercial properties with the residential projects we develop to expand our sources of revenue. To better attract and serve elderly customers, we provide healthcare consultation services and comprehensive medical care services at our community-based healthcare management centers. By creating a caring neighborhood culture, we believe we can get a higher average selling price and a better profit margin, as well as further strengthen its “Redco” brand.

We have a management team with strong execution capabilities and extensive industry experience

The strong execution capabilities of our management team have been instrumental in executing our business strategies and achieving our current market position. Our management team have an average of 15 years of industry experience. The executive Directors of our Board have served our Group for over a decade, which facilitates the promotion of common corporate values and operating philosophy. Our management team comprises professionals with expertise in a wide range of fields, including real estate development, planning, design, engineering, finance, project investment, operations and marketing and sales. Throughout the years, we have endeavored to recruit and train employees who have potential to contribute to our growth.

BUSINESS STRATEGIES

Further expand business operations in the key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region as well as other regions in China

We have located our projects in strategically targeted key economic cities in the Greater Western Taiwan Straits Economic Zone, the Bohai Economic Rim, the Central and Western Regions and the Pearl River Delta Region. We will continue to strengthen our market position in these cities while further expanding our operations by:

- leveraging our experience and expertise in the cities where we have established our presence as well as our understanding of our target customers and our strong relationships with local governments and business partners, to acquire new parcels of land and develop new projects in these cities;
- seeking to enter into the property markets in other cities with high GDP and population growth potential in the three regions where we currently do not have any presence; and
- identifying and capturing new business opportunities in the other regions of the PRC, including first-tier and second-tier cities in the Yangtze River Delta Region and the Pearl River Delta Region.

Continue diversified land acquisition strategies with a view to allocating financial resources to the most profitable opportunities

We intend to continue to follow our diversified land acquisition strategies. We intend to continue prioritizing our financial resources towards the most profitable opportunities by selectively targeting land that has high growth potential and acquiring such land at competitive costs. In particular, we intend to continue to leverage our experience with land acquisition strategies such as: (i) incorporating cultural concepts to develop properties that meet the needs of the local communities, in particular, the cultural concept of the Mazu goddess; (ii) early involvement in areas encouraged by the local government; (iii) leveraging our past success in developing quality property projects to acquire further land in the same geographical area; (iv) acquisition of local property developers that have a land reserve suitable for our development strategy; and (v) incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of the local communities. As part of our expansion, we may also make strategic investment and acquisitions that complement our operations.

Continue to focus primarily on residential property development while achieving an optimal and diversified portfolio by developing a higher proportion of commercial property development projects

Historically, we focused primarily on residential properties. We intend to continue to further diversify our product mix by engaging in a higher proportion of commercial property development projects in the coming years. We intend to continue developing landmark properties such as high-grade office buildings and hotels at prime locations, which we will enhance the image of its “Redco” brand. We intend to sell most of our commercial property projects to support the expansion of our operations while strategically retaining high quality commercial properties as investment properties for generating rental income. Diversified product mix will enhance our ability to expand and will enable us to effectively respond to any macro-economic policy affecting the PRC residential property sector.

Further strengthen “Redco” brand by providing quality products to customers and continuing to engage in projects that entail the construction of landmark properties

We intend to solidify our reputation in the cities where we have established a presence as well as its other strategically targeted cities. We intend to remain focused on creative architectural planning and innovative product designs to provide superior value to our customers, which will in turn enhance our reputation. We also intends to expand our collaborations with reputable design firms to further enhance the recognition of our “Redco” brand. Furthermore, we aim to engage in more projects that entail building landmark properties such as well-recognized hotels or office buildings at prime locations. We also plan to continue to organize promotional events such as economic forums to promote our “Redco” brand.

Provide services satisfying demand along the full lifecycle of home buyers

In order to satisfy the increasingly diversified service demands, we will develop and provide more featured services and enhance the overall community experience of home buyers. We will continue to provide community support, education and community medical services for the elderly for the convenience of residents. Moreover, we will continue to upgrade our one-stop education eco-system and provide all-age education services from kindergarten to university of the third age. In addition to the existing featured services, we will stay attentive to the needs of home buyers and further expand our scope of services. We aim to create a hospitable community environment and a caring community culture, to preserve and increase the property value, enhance our competitiveness and boost our brand awareness.

Continue to recruit, retain and motivate a talented workforce

In order to support our growth and expansion, we aim to attract and recruit employees with a wide range of expertise including real estate development, project planning, design, finance and marketing and sales. We emphasize the long-term development of a quality workforce and the alignment of the interests of our workforce with those of the Company. We will continue to recruit, retain and motivate a talented workforce by offering our staff performance-based compensation packages, on-the-job training programs, opportunities to advance and a strong corporate culture that promotes the interests of all stakeholders including shareholders, employees and the society at large.

Recent Development

Issuance of January 2019 Notes

On January 22, 2019, we issued the US\$250,000,000 13.5% senior notes due 2020. As of the date of this offering memorandum, the entire principal amount of the January 2019 Notes remain outstanding. For details, see “Description of Other Material Indebtedness.”

Full Repayment of the February 2018 Notes

On February 27, 2019, the February 2018 Notes have become matured and been fully repaid.

2019 HSB Syndicated Facility

On March 27, 2019, we entered into the 2019 HSB Syndicated Facility. For details, see “Description of Other Material Indebtedness.”

OUR PROPERTY DEVELOPMENT PROJECTS

Overview

As of December 31, 2018, we had 56 property development and investment projects under various stages of development in various cities in the Bohai Economic Rim (Tianjin, Jinan and Yantai), the Greater Western Taiwan Straits Economic Zone (Nanchang), the Central and Western Regions (Hefei and Xianyang), the Pearl River Delta Region (Shenzhen and Zhongshan) and the other region (Australia).

We mainly categorize our residential properties as follows:

- multi-story apartments (多層洋房住宅) — which are typically buildings with four to seven stories;
- low-rise apartments (小高層住宅) — which are typically buildings with eight to 18 stories;
- high-rise apartments (高層住宅) — which are typically buildings with 19 to 33 stories; and
- townhouses (聯排住宅) — which are typically houses with no more than three stories connected to each other.

Property Series

We categorize our property development projects into five series depending on the features of the property for the purpose of delineating the different positioning of each project. Key features of each of our property series are set forth below:

- Aristocratic series (君御系): combining residential and commercial space and serviced by transportation facilities;

- Lake series (瀾湖系): combining various features to increase the living standard of customers;
- Sunshine series (陽光系): targeting the market of improved type of properties with splendid view of the nearby coast;
- TOP series (TOP系): targeting the market of improved type of properties and located near precious natural environment; and
- Complex series (綜合體): integrating multiple functions of urban living with commercial and residential properties.

Classification of Our Property Developments projects

The table below sets forth our classification of properties, respectively:

This offering memorandum	Financial statements
<p><i>Completed projects:</i> projects or phases for which we have received the relevant certificates of completion issued by the relevant governmental authorities.</p>	<ul style="list-style-type: none"> • Completed properties held for sale
<p><i>Projects under development:</i> projects or phases for which we have received the relevant construction works commencement permits but construction works have not yet been completed.</p>	<ul style="list-style-type: none"> • Properties under development for sale
<p><i>Projects for future development:</i> projects or phases for which construction works has not yet commenced and we have: (a) received the relevant land use rights certificates, (b) signed the relevant land grant contracts but not yet obtained land use rights certificates, or (c) received the confirmation letter on bidding for granting land use rights but not yet signed the relevant land grant contracts.</p>	<ul style="list-style-type: none"> • Prepayment for leasehold land • Land use rights under Properties under development for sale
<p><i>Projects with framework agreements or letters of intent signed:</i> projects or project phases for which we have entered into an framework agreements or letters of intent based on our overall strategies and business development plans with the relevant government authorities, which sets forth the general development conditions relating to the site, including project type, site area and plot ratio.</p>	<ul style="list-style-type: none"> • Not applicable

Since some of our property development projects comprise multiple-phase developments, a single project may include different phases falling into any one or more of the above categories.

The names of our property development projects used in this offering memorandum are those project names which we have used, or intend to use, to market our properties. Some of the names of our property development projects may be different from the names registered with the relevant authorities. Some of the names are subject to approval by the relevant authorities and are therefore subject to change. The English names of our property projects are for reference and marketing purposes only.

In this offering memorandum, the figures for land site area and the information setting out the construction period of our property development projects are based on the relevant documents issued by the PRC government, survey reports or our own internal records, as applicable.

The following figures are based on our internal records, internal estimates and business plans: (i) figures for saleable GFA pre-sold, planned GFA and GFA without land use rights certificates; and (ii) information regarding estimated construction commencement date, estimated pre-sale commencement date, estimated construction completion date, development costs incurred and future development costs to be incurred. The actual figures and construction or pre-sale schedules may differ in the future in material respects from our current estimates.

A property is considered to be sold after we have executed the relevant pre-sales contract, completed construction works in respect of the property and delivered the property to our customer. A property is considered to be pre-sold after we have executed the relevant pre-sales contract but have not yet delivered the property to our customer. A property is considered to be delivered to our customer when our customer has signed the written confirmation of the delivery of the property. Our customers are required to acknowledge receipt of delivery of properties in accordance with the terms under their respective sale and purchase agreements.

Summary Information Regarding Our Property Projects

We have obtained all the relevant land use rights certificates for our completed properties and properties under development. As of the date of this offering memorandum, the land premiums for all of our property projects have been paid in full.

PORTFOLIO OF OUR PROPERTY DEVELOPMENT PROJECTS

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

Project	City	Attributable interest	Site area ⁽¹⁾ (sq.m.)	Total GFA (sq.m.)	Saleable GFA remaining unsold (sq.m.)	Actual/Expected completion date	Type
Spain Standard 力高國際城	Nanchang	100%	466,665.3	908,932.6	14,572.8	Q4 2014	Commercial and residential
Riverside International 濱江國際	Nanchang	100%	37,345.7	204,600.6	2,412.5	Q4 2014	Commercial and residential
Bluelake County 瀾湖郡	Nanchang	100%	135,285.0	286,794.7	20,055.3	Q3 2016	Commercial and residential
Riverlake International 濱湖國際	Nanchang	51%	68,373.0	205,846.3	10,262.2	Q2 2017	Commercial and residential
Imperial Mansion 君禦華府	Nanchang	78%	41,993.3	109,826.6	8,370.3	Q4 2016	Commercial and residential
Imperial Metropolis 君禦都會	Nanchang	51%	84,093.3	227,119.0	42,730.7	Q4 2017	Commercial and residential
Bluelake International 瀾湖國際	Nanchang	51%	47,151.0	177,260.7	8,021.6	Q4 2017	Commercial and residential
Luxurious Royal 瀾湖禦景	Nanchang	51%	74,134.0	238,204.2	238,204.2	Q3 2019	Commercial and residential
Royal Family 君禦世家	Nanchang	30%	120,984.0	211,117.6	66,338.9	Q4 2018	Commercial and residential

Project	City	Attributable interest	Site area ⁽¹⁾ (sq.m.)	Total GFA (sq.m.)	Saleable GFA remaining unsold (sq.m.)	Actual/Expected completion date	Type
The Garden of Spring 十裡春風	Nanchang	42%	30,378.0	15,859.5	13,616.4	Q2 2018	Commercial and residential
Scenery Bay 麗景灣	Nanchang	40%	51,919.0	134,567.6	134,567.6	Q3 2020	Commercial and residential
Delight Scenery 悅景台	Nanchang	51%	62,455.0	122,609.9	122,609.9	Q2 2020	Commercial and residential
YONG Lake Scenic Center 雍湖景畔	Nanchang	51%	132,505.0	412,057.2	412,057.2	Q1 2021	Commercial and residential
Life Sunshine Town 生命陽光城	Nanchang	100%	33,396.4	50,181.8	50,181.8	Q4 2020	Commercial and residential
The Phoenix 鳳凰新天	Nanchang	46%	16,295.0	89,130.0	89,130.0	Q4 2020	Commercial
Golden Mansion 金尊府	Nanchang	40%	92,314.0	174,063.8	174,063.8	Q4 2020	Commercial and residential
Royal City 君譽城	Nanchang	16%	225,296.0	641,918.9	641,918.9	Q4 2021	Commercial and residential
Fifth Avenue 贛州第五大道	Ganzhou	30%	107,814.9	623,500.0	623,500.0	Q4 2020	Commercial and residential
Sunshine Coast 陽光海岸	Tianjin	100%	481,394.0	1,475,226.0	1,110,766.5	Q4 2019	Commercial and residential
Land Lot Nos. A1 and A2 A1及A2號地塊	Tianjin	100%	69,336.2	55,469.0	55,469.0	Q2 2018	Commercial and residential
Perfection Ocean 理想海	Tianjin	18%	159,465.9	175,339.6	175,339.6	Q3 2020	Commercial and residential
Luminescence Ocean 拾光海	Tianjin	22.5%	68,830.4	130,921.7	130,921.7	Q3 2020	Commercial and residential
Cloud Metropolis 雲都會	Ningbo	41%	132,701.0	412,382.5	412,382.5	Q2 2020	Commercial and residential
Splendid the Legend 盛世名門	Jinan	100%	51,675.2	205,813.6	—	Q2 2013	Commercial and residential
Bluelake County 瀾湖郡	Jinan	80%	68,066.0	237,534.7	13,654.0	Q4 2018	Commercial and residential
Royal Family 君禦世家	Jinan	51%	30,682.0	134,732.0	134,732.0	Q4 2019	Commercial and residential
Imperial Mansion 君禦華府	Jinan	90%	44,966.0	109,400.0	13,654.0	Q4 2018	Commercial and residential
Redco Visionary 力高未來城	Jinan	85%	90,597.3	317,104.4	317,104.4	Q2 2020	Commercial and residential
Redco Visionary II 力高未來城二期	Jinan	85%	146,203.5	384,636.3	384,636.3	Q4 2022	Commercial and residential
Spring Villa 雍泉府	Jinan	60%	268,113.0	580,350.0	580,350.0	Q3 2022	Commercial and residential
Sunshine Coast - Phase I 陽光海岸—第一期	Yantai	100%	51,693.7	186,470.8	103,722.4	Q2 2016	Commercial and residential
Sunshine Coast - Phase II 陽光海岸—第二期	Yantai	100%	21,371.0	68,241.9	38,813.3	Q4 2018	Commercial and residential
Sunshine Coast - Phase III 陽光海岸—第三期	Yantai	100%	33,142.0	81,270.1	7,612.8	Q4 2018	Commercial and residential
Sunshine Coast - Phase IV 陽光海岸—第四期	Yantai	100%	63,411.0	213,770.0	213,770.0	Q4 2020	Commercial and residential

Project	City	Attributable interest	Site area ⁽¹⁾ (sq.m.)	Total GFA (sq.m.)	Saleable GFA remaining unsold (sq.m.)	Actual/Expected completion date	Type
Mix Kingdom Redco 力高•共和城	Hefei	80%	395,596.4	871,735.3	79,560.8	Q2 2017	Commercial and residential
Prince Royal Family 君禦世家	Hefei	100%	88,025.5	299,699.5	41,277.8	Q2 2017	Commercial and residential
Royal International 君禦國際	Hefei	80%	43,873.0	128,301.1	128,301.1	Q2 2019	Commercial and residential
Bluelake City 瀾湖前城	Hefei	70%	76,058.8	228,000.0	228,000.0	Q2 2020	Commercial and residential
Tinyue Mansion 天悅府	Hefei	70%	67,931.0	190,794.8	190,794.8	Q2 2021	Commercial and residential
Funan Huaan City 阜南華安城	Fuyang	20%	165,601.0	375,870.6	375,870.6	Q2 2020	Commercial and residential
Linquan Huaan City 臨泉華安城	Fuyang	20%	299,888.0	833,522.4	833,522.4	Q2 2020	Commercial and residential
Redco Courtyard 雍湖灣	Wuhan	60%	100,411.0	112,217.4	112,217.4	Q4 2020	Commercial and residential
Youthfulness 雍華年	Wuhan	70%	61,450.0	114,470.0	114,470.0	Q4 2020	Commercial and residential
Royal City - Phase I 禦景灣 - 第一期	Xianyang	70%	69,466.8	237,012.8	14,907.1	Q2 2019	Commercial and residential
Majestic Mansion 天悅華府	Xianyang	75%	88,319.8	171,000.0	171,000.0	Q4 2020	Commercial and residential
Royal Family 君御世家	Xianyang	30%	27,588.1	78,593.0	78,593.0	Q4 2020	Commercial and residential
Royal International 力高君禦花園	Shenzhen	51%	33,035.3	177,640.0	11,615.2	Q2 2016	Commercial and residential
Xilong 熙隴山	Shenzhen	20%	66,665.0	286,659.0	286,659.0	Q1 2020	Commercial and residential
Project Nantong 南通項目	Nantong	49%	56,499.6	101,210.3	101,210.3	Q4 2020	Commercial and residential
Royal Family 君禦世家	Zhongshan	70%	30,819.5	95,889.0	95,889.0	Q2 2019	Commercial and residential
Bluelake Landmark 瀾湖峯景	Zhongshan	70%	28,112.5	75,414.0	75,414.0	Q3 2019	Commercial and residential
Bayview 觀悅灣	Quan Zhou	33%	18,306.0	57,700.0	57,700.0	Q4 2019	Commercial and residential
雲彩基地	Suzhou	49%	10,900.2	106,978.0	106,978.0	Q4 2021	Commercial and residential
Yuchau Mansion 郁洲府	Lianyuengang	40%	85,234.0	314,725.2	314,725.2	Q2 2020	Commercial and residential
Ninjiang New City 寧江新城	Meizhou	20%	42,000.0	136,000.0	136,000.0	Q1 2020	Commercial and residential
Prime	Australia	26%	15,830.0	56,579.0	56,579.0	Q1 2020	Commercial and residential
TOTAL			<u>4,156,370.2</u>	<u>10,865,860.2</u>	<u>9,996,412.8</u>		

Note:

- Information for “Site area” is based on relevant land use rights certificates, land grant contracts, tender documents, or other relevant agreements (as the case may be).

PROJECTS WITH FRAMEWORK AGREEMENTS OR LETTERS OF INTENT SIGNED

In addition to our existing property development projects, we are actively exploring opportunities for additional property development projects in the PRC. As of the date of this offering memorandum, we entered into the following framework agreements or letters of intent for the purpose of acquiring parcels of land in Tianjin, Yantai and Xianyang for potential future development as follows:

Location	Counterparty(ies)	Planned use	Site area	Permitted GFA	Estimated attributable interest to our Group
Parcels of land in Gaoxin District, Yantai, Shandong Province	Management Committee of Yantai Hi-tech Industrial Development Zone (煙台高新技術產業園區管理委員會) and Villagers Committee of Beizhai Village of Mashan Sub-district Office in Yantai Hi-tech Industrial Development Zone (煙台高新技術產業園區馬山街道辦事處北寨村村民委員會)	Residential	706.1 mu (approximately 471,000.0 sq.m.)	1,200,000.0 sq.m.	100%

Notwithstanding the agreements or letters of intent we entered into, we are still required to go through the public tender, auction or listing-for-sale procedures (as the case may be) under the relevant PRC rules and/or obtain relevant government approvals before can obtain the land use rights with respect to the land parcels under such agreements or letters of intent. As such, there is no assurance that we will be successful in securing the land grant contracts and obtaining the relevant land use rights certificates or the relevant approvals. Please refer to the section headed “Risk Factors — Risks relating to our business — We may not be able to obtain land use rights of parcels of land with respect to which framework agreements or letters of intent have been entered into, and as a result, there may be a material adverse effect on our business, results of operation and financial condition” in this offering memorandum for further details.

RESETTLEMENT OPERATIONS

We engage in property development projects whereby either or the original land use rights owner are responsible for resettlement operations including compensation and resettlement of affected local residents, demolition of existing structures and clearing of land of the relevant areas. For 2016, 2017 and 2018, we have not encountered any material difficulties with respect to its resettlement operations. Please refer to the section headed “Risk Factors — Risks relating to our business — We engage in resettlement operations that involve the resettlement of existing residents and the resettlement process may be delayed or not be completed as planned, and as a result the land acquisition and development process may be materially and adversely affected” in this offering memorandum. Details of our resettlement project are set out below.

Yantai Beizhai Village Resettlement Project

With a view to acquiring land in Beizhai Village in Yantai, Shandong Province, in March 2013, Yantai Redco Development entered into cooperation agreements with the villagers committee of Beizhai Village (the “Beizhai Villagers Committee”) in respect of parcels of land with an aggregate site area of 706.1 mu (or 471,000.0 sq.m.) and an aggregate GFA of 1,083,600.0 sq.m. (the “Beizhai Village Land”). It was agreed that if Yantai Redco Development successfully acquires the Beizhai Village Land in the subsequent public tender, listing-for-sale or auction, it shall provide the Beizhai Villagers Committee with units with an aggregate GFA of 355,900.0 sq.m. to be constructed on such land, 95,500 sq.m. of which is for resettlement housing and the remaining 260,400 sq.m. is for commercial and residential use. The Beizhai Villagers Committee shall be responsible for site clearing operations including the demolition of existing structures, entering into resettlement agreements with

the affected villagers and the distribution of such resettlement housing to the affected villagers in accordance with the relevant guidelines of the local government. Accordingly, we are not required to enter into and have not entered into any resettlement agreements with the affected local residents. In December 2013, Yantai Redco Development further entered into a supplemental agreement with the Beizhai Villagers Committee, pursuant to which it agreed that in the event that Yantai Redco Development is unable to obtain all of the Beizhai Village Land, the resettlement housing to be constructed and delivered to the Beizhai Villagers Committee by Yantai Redco Development should be adjusted in proportion to the size of the land acquired by Yantai Redco Development.

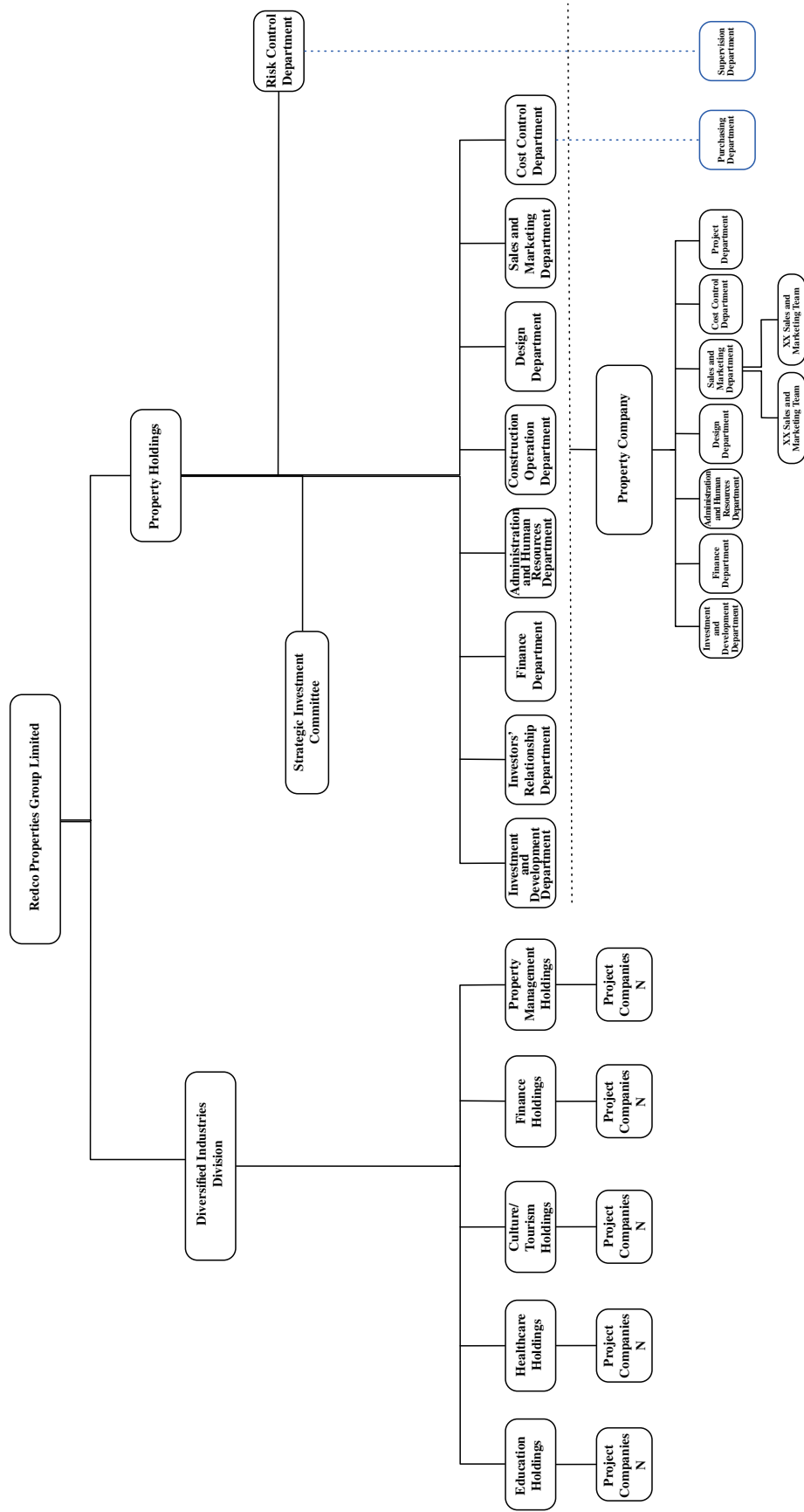
In March 2013, Yantai Redco Development entered into an agreement with the Management Committee of Yantai Hi-tech Industrial Development Zone (the “Management Committee”), the relevant governmental authority responsible for the administration of Beizhai Village, which provided that a portion of the Beizhai Village Land with a site area of 606 mu would be listed for sale in various stages and at the land grant price of no more than RMB2.1 million per mu. The agreement further provided that the land grant premium paid by Yantai Redco Development upon each listing-for-sale of the relevant parcels of land will be partially refunded. The first parcel of land, which meets listing-for-sale requirements, with a site area of 77 mu would be listed for sale shortly after the signing of such agreement. In September 2013, we successfully acquired the parcel of land through listing-for-sale and entered into the land grant contract in respect of a parcel of land with a site area of 51,693.7 sq.m. (approximately 77 mu) and a planned GFA of 183,727.5 sq.m. at the land grant premium of RMB205.8 million, which has been settled in full. This parcel of land forms Phase I of our Sunshine Coast project in Yantai. We commenced to construct resettlement housing with an aggregate GFA of 95,500 sq.m. for the affected villagers of Beizhai Village on such land in accordance with the said agreements in the first quarter of 2014 and expect to complete the construction in the third quarter of 2016.

In September 2013, Yantai Redco Development entered into an agreement with the Management Committee, whereby it was agreed that the Management Committee will conduct site clearing operations in respect of a portion of the Beizhai Village Land with a site area of 606 mu in order to prepare the relevant land for subsequent listing-for-sale. Yantai Redco Development agreed to provide a sum of RMB110.0 million (the “Site Clearing Fees”) to the Management Committee to finance its site clearing operations. The Site Clearing Fees shall be returned to Yantai Redco Development without interest upon the full settlement of the land grant premium to be paid by the successful bidder at the subsequent listing-for-sale. The Management Committee further guaranteed that Yantai Redco Development would be granted land use rights in respect of the Beizhai Village Land. We intend to participate in the listing-for-sale process in respect of such remaining portion of the Beizhai Village Land, which, if successful, will be used as future phases of Sunshine Coast in Yantai.

As of December 31, 2018, we paid an amount of RMB40.0 million as part of the Site Clearing Fees which has been accounted for as other receivables, and acquired three parcels of land with RMB497.2 million. Under the various agreements entered into with the Beizhai Villagers Committee and the Management Committee, the major obligations of Yantai Redco Development include: (i) payment of the Site Clearing Fees or deposits in accordance with the terms of the relevant agreements, (ii) participation in the subsequent public tender, listing-for-sale or auction, and (iii) upon successfully obtaining land use rights in respect of the Beizhai Village Land, construction and delivery of resettlement housing and other housing in accordance with the relevant agreements.

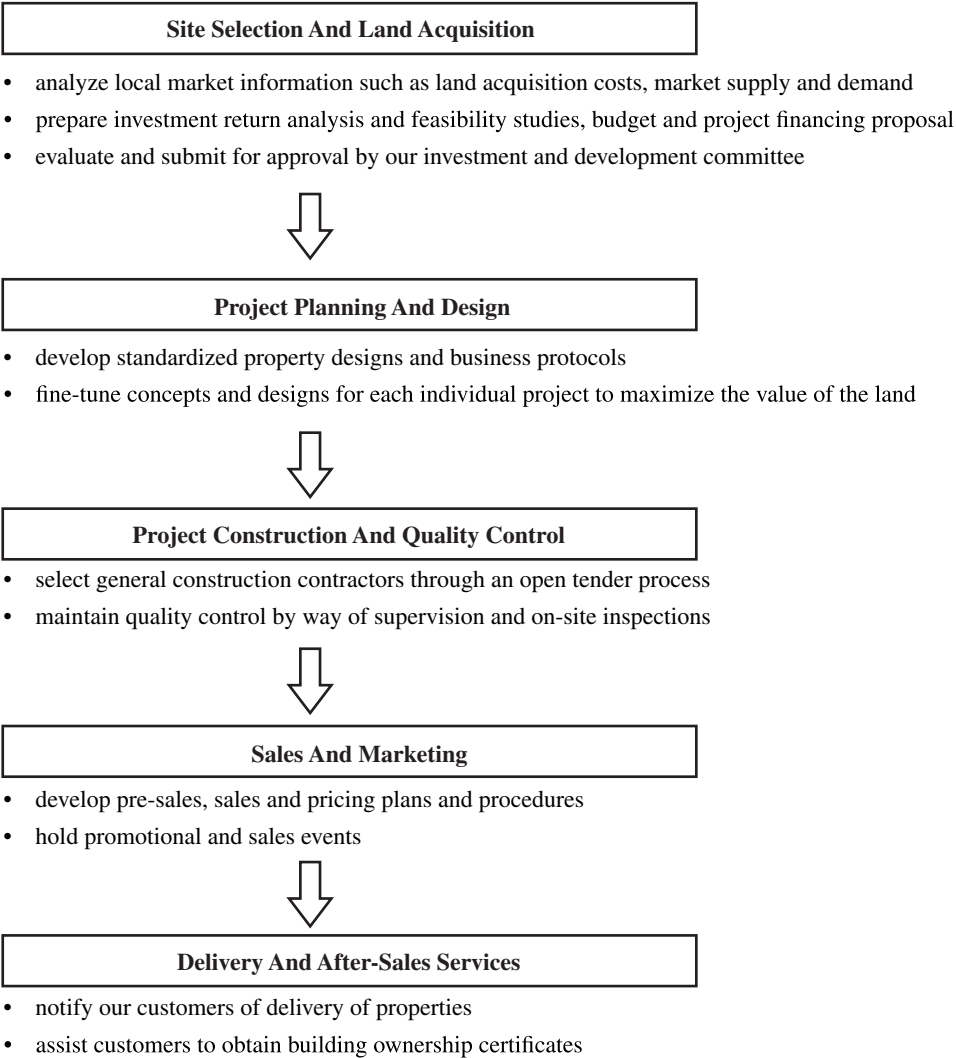
OUR PROPERTY DEVELOPMENT MANAGEMENT

The following chart sets forth the management and reporting structure of our Group:



We have detailed procedures, well-established organizational structure and tailored policies setting out clear reporting pipelines and responsibilities with a view to facilitating efficient communications, prompt decision-making and responsiveness to changing market conditions. We have established various departments for our Property Holdings, including the Investment and Development Department (投資發展中心), Investors' Relationship Department (投資者關係部), Administration and Human Resources Department (行政及人力中心), the Finance Department (財務管理中心), the Design Department (設計管理中心), the Construction Operation Department (工程運營中心), the Cost Control Department (成本控制中心) and the Sales and Marketing Department (營銷管理中心) to oversee and coordinate different aspects of our operations. Our headquarters and our regional project companies work closely together on developing property development projects.

OUR PROPERTY DEVELOPMENT PROCESS



City and Site Selection

Our investment and development committee (投資發展委員會) meets on a monthly basis and is responsible for identifying and evaluating a range of regions or cities in the PRC for potential development, and approving site selection decisions. In order for the investment and development committee to make an informed decision, we conduct due diligence on the local markets regarding land acquisition costs, pricing trends and market supply and demand, following which we prepare investment return analysis and feasibility studies regarding the positioning of our property development projects, budget and project financing proposal. We also engage third-party research companies to analyze the merits of new cities we plan to enter into.

We consider various factors in our city and site selection including: (a) general socio-economic conditions such as economic growth, population, market supply and demand and the purchasing power of local residents; (b) any preferential governmental policies, such as areas identified by the PRC government as the key development areas; (c) the site area and location, such as its proximity to downtown and availability of public transport and amenities; (d) in respect of the acquisition of land from third-party project owners, whether there are any legal risks or technical difficulties identified; (e) the estimated project development, financing and marketing timetable; (f) the estimated investment return; and (g) whether the potential site fits the Group's strategic planning.

Land Acquisition

We have established diversified land acquisition strategies that complement each other. We primarily acquire land through acquisition from third parties and listings-for-sale from the PRC government in accordance with relevant PRC laws and regulations. Over the years we have generally been able to acquire land from original project owners who typically were able to make land acquisitions at an early stage when land costs were relatively low.

We have also employed land acquisition strategies to acquire land at competitive costs by selectively engaging in property developments that compatible with local government policies or other local interest. In 2016, 2017 and 2018, we have acquired land through (i) incorporating cultural concepts to develop properties that meet the needs of the local communities; (ii) early involvement in areas encouraged by the local governments; (iii) leveraging our past track record in developing quality property development projects to acquire further land in the same geographical area; (iv) acquisition of local property developers that have a land reserve suitable for our development strategy; and (v) incorporating the concepts of healthcare and elderly nursing to develop properties that meet the needs of the local communities.

Project Planning and Design

Over the years, we have accumulated a diverse portfolio of business protocols and standardized property designs for our property developments. In particular, we have been focusing on five clear product lines consisting of a variety of themed residential properties: (i) the Aristocratic series, (ii) the Lake series, (iii) the Sunshine series, (iv) the TOP series and (v) the Complex series. To maintain the quality of our product offerings, we engage third-party professional design firms to formulate detailed project designs and construction plans while actively fine-tune the concepts and designs for each individual project in order to maximize the value of the land. During its selection of design firms, we would consider a number of factors including our past cooperation experience, track record, prices quoted and estimated design cycle. In the past, we have cooperated with a number of reputable design firms such as AECOM and Belt Collins.

Project Construction

Appointment of Construction Contractors

We outsource construction works of all our property development projects to qualified third-party general construction contractors. Such construction works include, among other things, foundation digging, general construction and installation of equipment. The general construction contractors of our property developments are selected through an open tender process. The tender process is managed by the Cost Control Department and the Construction Operation Department of our headquarters and the respective regional companies. We conduct due diligence procedures on our contractors, such as inspecting their credentials and paying site visits of their offices and property projects, and only those contractors who have passed such due diligence procedures are invited to participate in the tender. In selecting the winning bid, we typically consider the contractor's professional qualifications, technical capabilities, industry reputation, track record and prices tendered. We also entered into memoranda of cooperation with four of our construction contractors. The memoranda of cooperation have a term of three years with no commitment to renew upon expiry. Under the memoranda of cooperation, the parties have agreed to establish communication channels and meet regularly with a view to facilitating business cooperation.

Quality Control and Construction Supervision

We require our contractors to comply with the relevant PRC laws and regulations relating to construction quality as well as our internal quality control standards and specifications. The construction department of our project companies, by itself or together with construction contractors and certified third-party construction supervision companies engaged by us, monitor the on-site progress regularly and conduct monthly inspections and reviews to ensure the quality and safety of construction works.

During the tender process, we typically require the construction contractor to set out the composition of the management team of the property development project, and any change in the composition of the management team after winning the bid is subject to our prior consent. In order to ensure that the property development project meets the construction completion schedule and quality and safety requirements, we may also request the construction contractor to change its management personnel if we consider their performance unsatisfactory. Under our typical contracts, contractors are subject to warranties stipulated in the relevant contracts in respect of construction works completion schedule and the quality of works in accordance with the relevant PRC laws and regulations. Our contractors are also required to pay fines in the event of a delay and bear the costs of rectifying any defects.

Procurement

Our contractors are responsible for procuring substantially all of the construction materials such as steel and cement for our property development projects. We typically provide our specifications regarding construction materials to contractors and require contractors to set out the brands or manufacturers of construction materials in tender documents. We may also purchase certain specialized building materials such as doors, windows and elevators directly from designated reputable and reliable brands or manufacturers to ensure quality. Payment methods vary in the procurement of different construction materials, and payment is typically settled in stages within ten days of completion of a certain stage of installation works. When selecting suppliers, we would consider their technical qualifications and accreditations, track record, financial condition, average supply cycle and quality of construction materials. Upon completion of each property development project, we conduct an evaluation of our suppliers to decide whether to continue procuring

construction materials from them. For construction materials procured by our contractors, the risk of price fluctuations is absorbed by them so long as the fluctuations are within a certain percentage of the contract price (such as 5%). In the event that the price exceeds the agreed percentage, we may be required to reimburse our contractors for any shortfall.

We have also entered into framework agreements with several suppliers for the supply of electric cables of different specifications with reputable suppliers. The framework agreements have a term of one year, renewable upon the parties' mutual agreement one month prior to the expiry of the term. Under the framework agreements, we are required to source electric cables used in our property development projects solely from these suppliers. We are not subject to any minimum purchase commitment. No adjustments can be made if market price fluctuates within 5% of the contract price. If market price fluctuates by more than 5% of the contract price, the parties may agree to adjust the contract price accordingly.

Sales and Marketing

Sales and Marketing Plan

We determine our per unit sales price with reference to the sales price of market comparables, market conditions and our development costs. Our sales and marketing personnel are incentivized by performance-based compensation packages to contribute to the success of our property development projects.

We have established a membership club, Redco Club (力高會), for our customers. Members are entitled to enjoy deductions to the purchase price of their properties. For pre-sales of some of our property development projects, we also offer customized incentives through our referral programs.

We hold promotional and sales events at our property development project premises and invite potential customers to visit exhibit units. Customers of some of our property development projects are entitled to enjoy discounts and free property management services. We also organize promotional events such as economic forums to increase public awareness of our "Redco" brand.

Pre-sale

In line with market practice in the PRC, we normally commence pre-sales of our property development projects before completion of the entire project. Our pre-sales typically comprise multiple phases in accordance with our marketing strategies and plans. Our pre-sale contracts are prepared in accordance with applicable PRC laws and regulations. Purchasers are typically required to pay deposits in several installments according to the schedule stipulated in the sales contract.

For 2016, 2017 and 2018, the amount of pre-sales by our Group (the "Contracted Sales") was approximately RMB10.1 billion, RMB13.2 billion and RMB22.0 billion (US\$3.2 billion), respectively.

Payment Arrangements

Our customers may choose to pay the purchase price of our properties by one lump sum payment or by mortgage financing. Customers choosing to settle the purchase price by one lump sum payment will be required to fully settle the purchase price shortly after the execution of the sales contract. Customers choosing to settle the purchase price of residential properties by mortgage financing shall,

according to the terms stipulated in the relevant sales contract, normally pay a down payment of no less than 30% of the purchase price upon the execution of the sales contract in accordance with the applicable PRC laws and regulations. Depending on the processing time required by mortgagee banks, the balance of the purchase price will typically be paid by the mortgagee bank shortly after the date of execution of the sales contract.

In line with market price in the PRC, we have arrangements with various banks for the provision of mortgage financing and where required, provide our customers with guarantees as security for mortgage loans. The terms of such guarantees typically last until the transfer of the building ownership certificate to the purchaser, or the satisfaction of mortgage loans by the relevant purchaser. As a guarantor, if the purchaser defaults in payment, we are obligated to repay all outstanding amounts owed by the purchaser to the mortgagee bank under the loan. We do not conduct credit checks on our customers but rely on credit checks conducted by relevant banks.

Delivery and After-sales Services

Delivery of Completed Properties

We closely monitor the progress of construction works at our projects under development. If we fail to deliver the completed properties within the stipulated timeframe due to our default, we may be liable to pay a certain percentage of the purchase price as penalty in accordance with the terms of the relevant sales contracts. Under current PRC laws and regulations, we are required to obtain a completion certificate before delivering properties to our customers. After a property development project has passed the requisite completion and acceptance inspections, we shall notify and make arrangements with our customers in respect of the inspection and delivery of properties. Under our typical sales contracts, customers failing to accept delivery of properties within ten to 15 days from the date of notification shall be deemed to have accepted delivery of our properties. We also undertake under our sales contracts to deliver individual building ownership certificates for our properties and such process is typically completed within six months from the date of delivery. We may also be liable to compensate our customers for any delay in the delivery of individual building ownership certificates.

After-sales services

Our customer service personnel provide after-sales services such as assisting customers to obtain building ownership certificates and handling customers complaints. Our customers may also join our Redco Club to participate in our activities and obtain first-handed information regarding our new property development projects.

PROPERTY MANAGEMENT SERVICES

In 2015, and the 11 months ended November 30, 2016, we provided property management services to manage our and external property development projects through Shenzhen Youju Meijia Property Services Co., Ltd. (深圳優居美家物業服務有限公司) (“Shenzhen Youju Meijia”) and its subsidiaries. We disposed of part of its equity interest in Shenzhen Youju Meijia on December 1, 2016, and ceased providing property management service since the same date. Certain of our property development projects are managed by independent property management companies.

AWARDS AND RECOGNITIONS

Over the past years, we have received recognition from various industry associations and the public.

Year	Award/recognition	Awarding body
2018	2018 PRC Investment Value Real Estate Enterprise (2018中國年度投資價值地產企業)	Guandian.cn (觀點地產新媒體)
2018	Listed Companies with the Most Growth Potential of 2017 (2017最具潛力上市公司大獎)	China Financial Market (中國融資)
2017	Top 100 Comprehensive Strength Listed Real Estate Enterprise of China for 2017 (2017年中國房地產上市公司綜合實力100強)	China Real Estate Association (中國房地產協會)
2017	Listed Companies with the Most Growth Potential of 2016 (2016最具潛力上市公司大獎)	China Financial Market (中國融資)
2017	Top 30 Comprehensive Strength Listed Real Estate Companies of Yantai for 2016 (2016年煙臺市房地產行業綜合實力三十強企業)	Yantai Real Estate Association (煙臺房地產企業協會)
2016	Listed Companies with the Most Growth Potential of 2015 (2015最具潛力上市公司大獎)	China Financial Market (中國融資)
2016	The Most Valuable Listed Real Estate Enterprise of China for 2016 (2016中國最具價值地產上市企業)	Guandian.cn (觀點地產新媒體)
2016	Top 100 Real Estate Developers of China for 2015 (2015年度中國房地產卓越100)	Guandian.cn (觀點地產新媒體)
2016	Top 100 Real Estate Developers with Brand Value of China for 2015 (2015年度中國房地產品牌價值卓越100)	Guandian.cn (觀點地產新媒體)
2016	Redco • Lanhu Jun — Shandong Real Estate Star Enterprises (力高•瀾湖郡 — 山東地產明星企業)	Shandong Daily (山東商報)
2015	2015 Top 10 Hong Kong Listed Domestic Developers Worthy of Investment (2015中國大陸在港上市房地產公司投資價值TOP 10)	The Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and the China Index Academy (中國指數研究院)
2015	2015 Highest Growth Value Award (2015最具成長價值獎)	China Finance Summit Organising Committee (中國財經峰會組委會)
2015	2015 Top 100 PRC Real Estate Companies (2015年中國房地產業綜合實力100強)	Chinese Real Estate Federation (中國房地產業聯合會), China Industry Information Statistics Association (中國行業信息統計協會) and the Centrechina.com (焦點中國網)

Year	Award/recognition	Awarding body
2013	2013 Top 10 Brands of South China Real Estate Companies (2013中國華南房地產公司品牌價值 TOP 10)	The Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and the China Index Academy (中國指數研究院)
2010-2013 .	Top 100 PRC Real Estate Developers (中國房地產100強)	The Enterprise Development Research Center of the State Council (國務院發展研究中心企業研究所), the Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and the China Index Academy (中國指數研究院)

COMPETITION

The PRC property industry is highly fragmented and competitive. As a China Top 100 listed real estate developer, we primarily compete with other China Top 100 real estate developers focusing on the development of residential properties in the PRC. We compete on a broad range of factors, including product quality, service quality, price, financial resources, brand recognition, ability to acquire land and other factors. In recent years, property developers from the PRC and overseas have entered the property development markets in the cities where we have operations, resulting in increased competition for land available for development. Moreover, the PRC government has implemented a series of policies to control the growth and curtail the overheating of, and foreign investment in, the PRC property sector.

INTELLECTUAL PROPERTY RIGHTS

As of the date of this offering memorandum, we had four trademarks which were registered in the PRC and one trademark which was registered in Hong Kong.

INSURANCE

According to applicable PRC laws and regulations, property developers are not required to maintain insurance coverage in respect of their property development operations. We typically require the construction contractors of our property development projects to purchase construction in progress insurance for our projects under development. We have not maintained insurance in respect of litigation risks, business termination risks, product liability or important personnel of our Group, as such is not required under the applicable PRC laws and regulations.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Environmental Matters

We are subject to a number of environmental and safety laws and regulations in the PRC including the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the PRC 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, we have engaged independent third-party environmental consultants to conduct environmental impact assessments at all of our construction projects, and such environmental impact

assessments were submitted to relevant governmental authorities for approval before commencement of development. Upon completion of construction works, we are required to apply for an examination and acceptance with respect to environmental matters from the relevant governmental authorities. Only property development projects which have passed such examination and acceptance can be delivered.

Under its typical construction contracts, we require our contractors to strictly comply with relevant environmental and safety laws and regulations. We inspect the construction sites regularly and require its contractors to immediately rectify any default or non-compliance identified. We also provide training to our employees regarding environmental issues from time to time.

Social, Health and Work Safety

In respect of social responsibilities, in particular health, safety and social insurance, we have entered into employment contracts with our employees in accordance with the applicable PRC laws and regulations.

We maintain social welfare insurance for our full-time employees in the PRC, including pension insurance, medical insurance, personal injury insurance, unemployment insurance and maternity insurance, in accordance with relevant PRC laws and regulations. Our employees' manual contains policies and procedures regarding work safety and occupational health issues. We provide our employees with annual medical checks and safety training, and our construction sites are equipped with safety gloves, boots and hats.

REGULATION

SUMMARY OF PRINCIPAL PRC LAWS AND REGULATORY PROVISIONS

The following is a summary of the principal PRC laws, regulations, policies and administrative directives to which we are subject.

ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the PRC Law on Administration of Urban Real Estate (中華人民共和國城市房地產管理法), or the Urban Real Estate Law, promulgated by the NPC on July 5, 1994, effective on January 1, 1995 and amended on August 30, 2007 and amended on August 27, 2009, a real estate development enterprise is defined as an enterprise that engages in the development and sale of real estate for the purpose of making profits. Under the Regulations on Administration of Development and Operations of Urban Real Estate (城市房地產開發經營管理條例), or the Development Regulations, promulgated and implemented by the State Council on July 20, 1998 and recently amended on March 24, 2019, an enterprise that is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be RMB1.0 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom should hold relevant qualification certificates.

The Development Regulations also stipulate that the local government of a province, autonomous region or provincial-level municipality may, based on local circumstances, impose more stringent requirements on the registered capital and the number of professional personnel of a real estate development enterprise.

Pursuant to the Development Regulations, to establish a real estate development enterprise, the developer shall apply for registration with SAIC. The developer shall also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license.

On September 9, 2015, the State Council promulgated the Notice to Adjust and Promote the System of Capital Fund for Investment Projects in Fixed Assets (關於調整和完善固定資產投資項目資本金制度的通知), according to which the minimum capital ratio is 20% for affordable housing and ordinary commodity residential projects, and 25% for other property projects.

FOREIGN-INVESTED REAL ESTATE DEVELOPMENT ENTERPRISE

Pursuant to the Development Regulations, where a foreign-invested enterprise is to be established to engage in the development and sale of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Under the Catalog of Guidance on Foreign Investment Industrial (Revised in 2011) (外商投資產業指導目錄), or the Foreign Investment Catalog, promulgated by MOFCOM and NDRC on December 24, 2011, effective on January 30, 2012,

- the development of a whole parcel of land (limited to equity joint ventures and cooperative joint ventures) as well as the construction and operation of high-end hotels, premium office buildings, international conference, exhibition centers, the secondary market transactions in real estate sector and real estate intermediaries or agents fall within the category of industries in which foreign investment is subject to restrictions;
- the construction and operation of villa falls under the category of industries in which foreign investment is prohibited; and
- other real estate developments fall within the category of industries in which foreign investment is permitted.

However, such restriction measures imposed upon FRIIEs were deleted by the Foreign Investment Catalog amended in 2015.

Subject to the approval by the relevant foreign investment regulatory authorities, a foreign investor intending to engage in the development and sale of real estate in China may establish an equity joint venture, a cooperative joint venture or a wholly foreign owned enterprise by the foreign investor in accordance with the PRC laws and regulations governing foreign-invested enterprises.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見), or the 171 Opinion, which states that, among other things, a foreign entity or individual investing in the PRC property other than for self-use, must apply for the establishment of a FIREE in accordance with the applicable PRC laws and can only conduct operations within the authorized business scope. The 171 Opinion attempts to impose additional restrictions on the establishment and operation of a FIREE by measures including regulating the amount of registered capital as a percentage of total investment in certain circumstances, limiting the validity of a FIREE or the transfer of its projects and prohibiting the borrowing of money from domestic and foreign lenders where, among other things, the registered capital is not paid up, land use rights are not obtained, or the capital fund is less than 35% of the total investment amount in the intended development project. In addition, the 171 Opinion also limits the ability of certain foreign individuals to purchase residential properties in China.

On May 23, 2007, MOFCOM and SAFE jointly issued the Circular on Further Strengthening and Regulating the Approval and Supervision on Foreign Direct Investment in 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), or Circular 50, which states that, among other things, foreign investment in the real estate sector in the PRC relating to high-grade properties should be strictly controlled. According to Circular 50, before applying for the establishment of FIREEs, (i) both the land use rights certificates and property ownership certificates should have been obtained or (ii) contracts for obtaining land use rights and property ownership rights should be entered into. Also, acquisitions of domestic real estate entities and foreign investment in real estate sector in a way of a round-trip investment channel should be strictly regulated, and foreign investors may not bypass approval procedures through changes in actual controlling persons. In addition, existing foreign-invested enterprises need to obtain approval before expanding their business operations into the real estate sector and existing FIREEs need to obtain new approval in case they wish to expand their existing real estate business operations. SAFE authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements

or sales regarding capital account items to those entities failing to file with the MOFCOM or failing to pass the joint annual reviews of foreign-invested enterprises. For those FIREEs, which are wrongfully approved by local authorities for their establishment, (i) the MOFCOM will carry out investigation, order punishment and corrections, and (ii) SAFE authorities should not carry out foreign exchange registrations for these entities.

The 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) issued by SAFE on July 10, 2007 (“Notice 130”), which restricts the ability of FIREEs to raise funds through foreign debt, was abolished on May 13, 2013 by the Notice on Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and Its Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) (“No. 21 Notice”) which was promulgated by SAFE on May 10, 2013. However, most of the restriction measures on the foreign debt of FIREEs stipulated in Notice 130 have been reflected in the Measures for the Administration of Foreign Debt Registration (外債登記管理辦法) (“No. 19 Notice”) issued by SAFE on April 28, 2013. According to No. 19 Notice, local branches of SAFE must not register any foreign debt of a FIREE if it obtained approval certificate from competent commercial departments and filed with MOFCOM on or after June 1, 2007.

In connection with the filing requirement, on June 18, 2008, the MOFCOM issued the Notice on Properly Archiving the Filings for Foreign Investment in Real Estate Sector (關於做好外商投資房地產業備案工作的通知). According to the notice, since July 1, 2008, the MOFCOM entrusts its provincial level branch to review the filing materials with respect to FIREEs and check and confirm the legality, authenticity and accuracy of the materials. The MOFCOM will archive the filing after receiving the archival form duly completed and submitted by the provincial level branches. The notice also requires that the establishment (including the increase of registered capital) of an enterprises with foreign investment must comply with the principle of one project company engaging in one approved real estate project only.

Moreover, on November 22, 2010, the General Office of MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment in 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 rights, in the case that a real estate enterprise is established within the PRC with oversea capital, it is prohibited to purchase and/or sell real estate properties completed or under construction within the PRC for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management.

On June 24, 2014, MOFCOM and SAFE jointly issued the Notice on Improving the Registration of Foreign Investment in Real Estate (關於改進外商投資房地產備案工作的通知) to simplify the procedures of registration of foreign investment in real estate. On November 11, 2015, MOFCOM and SAFE jointly issued the Circular on Further Improving the Record-filing for Foreign Investments in Real Estate (關於進一步改進外商投資房地產備案工作的通知) to cancel the online record filing-procedure maintained by MOFCOM.

On August 19, 2015, MOHURD and other authorities jointly promulgated the Circular on Adjusting Policies on the Market Access and Administration of Foreign Investment in the Real Estate Market (關於調整房地產市場外資准入和管理有關政策的通知), which removed the special requirement of ratio of registered capital to total investment imposed on FIREEs. The Circular further removed the requirement that the registered capital of FIREEs shall be paid in full before such FIREE may apply for domestic loans or offshore loans.

According to the Decision of Amending Four Laws including the Wholly Foreign-owned Enterprises Law of the PRC (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) promulgated by the Standing Committee of the NPC on September 3, 2016, the establishment of foreign-invested enterprise and its subsequent changes should be filed with relevant authorities instead of obtaining approvals from relevant commerce authorities, except for the foreign-invested enterprise which are subject to the special administrative measures regarding foreign investment. The Provisional Measures for Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by MOFCOM On October 8, 2016, and amended on July 30, 2017, further detailed the relevant filing procedures.

However, the Wholly Foreign-owned Enterprises Law of the PRC will be abolished by the Foreign Investment Law of the PRC which was promulgated on March 15, 2019 and will be effective on January 1, 2020. The Foreign Investment Law of the PRC stipulates that the state applies the administrative system of pre-establishment national treatment plus negative list to foreign investment.

QUALIFICATIONS OF A REAL ESTATE DEVELOPMENT ENTERPRISE

Under the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), or the Provisions on Administration of Qualifications, promulgated by Ministry of Construction and implemented on March 29, 2000 and amended on May 4, 2015, a real estate development enterprise must apply for registration of its qualification according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of properties without a qualification classification certificate for real estate development. Ministry of Construction oversees the qualifications of real estate developers with national operations, and local Ministry of Construction authorities at or above the county level oversee the qualifications of local real estate developers.

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

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

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

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

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

On January 26, 2011, the General Office of the State Council issued the Notice on Further Promoting the Adjustment and Control of Real Estate Market (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), pursuant to which the qualification certificates and the sources of capital of real estate development enterprises will be censored. If a real estate development enterprise fails to obtain a construction permit and fails to start construction two years after the land is provided, the land will be confiscated and fines will be imposed accordingly.

DEVELOPMENT OF A REAL ESTATE PROJECT

Commencement of Development of a Property Project

According to the Administrative Measures for the Approving and Filing of Foreign-Funded Projects (外商投資項目核准和備案管理辦法), promulgated by the NDRC on May 17, 2014 and amended on December 27, 2014, Foreign-funded projects shall be subject to management by approval of or filing with relevant authorities. Pursuant to Catalog of Investment Projects Subject to the Approval of Governments of the year 2016 (政府核准的投資項目目錄(2016年本)), or the Catalog of Approval, promulgated by the State Council on December 12, 2016, for investment in the construction of fixed-asset investment projects listed in the Catalogue of Approval, the enterprises must report to relevant authorities for approval. Where enterprises invest in the construction of projects beyond Catalogue of Approval, such projects shall be subject to filing procedures.

According to the Several Opinions of the State Council on Further Strengthening the Utilization of Foreign Investment (關於進一步做好利用外資工作的若干意見), promulgated by the State Council on April 6, 2010, and the Notice on Devolution of Authority for Foreign Investment Projects (關於做好外商投資項目下放核准權限工作的通知), promulgated by NDRC on May 4, 2010, except where approval by the relevant departments under the State Council is required by the Foreign Investment Catalog, foreign investment in encouraged and permitted industries with a total investment of US\$300 million or less must be examined and approved by NDRC branches at the provincial level. Pursuant to the Notice on Issues related to Devolution of Authority of Examination and Approval of Foreign Investment (關於下放外商投資審批權限有關問題的通知), promulgated by MOFCOM on June 10, 2010, MOFCOM branches at the provincial level are responsible for the examination and approval of establishment and modifications of foreign-invested enterprises in encouraged or permitted industries with a total investment of less than US\$300 million and with a total investment of less than US\$50 million in restricted industries.

Grant of Land Use Rights

In April 1988, NPC amended the PRC Constitution (中華人民共和國憲法) to permit the transfer of land use rights for value. And in December 1988, NPC amended the Land Administration Law (土地管理法) to permit the transfer of land use rights for value. The acquisition of state-owned land use rights from relevant government authorities is commonly referred to as the primary market, and the acquisition of land use rights from entities which hold land use rights granted by relevant government authorities is commonly referred to as the secondary market.

In March 2007, NPC adopted the Property Rights Law of the People's Republic of China (中華人民共和國物權法), or the Property Rights Law, which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise prescribed by any law, the owner of construction land use rights has the right to transfer, exchange, use such land use rights as equity contributions or collateral for financing. If the state reclaims the properties owned by entities or individuals, it must compensate the property owner in accordance with laws and regulations and protect the lawful rights and interests of the owners.

Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (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), or the Interim Regulations on Grant and Assignment, promulgated by the State Council in May 1990, China adopted a system to grant and assign the rights to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the terms of use. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authority at the city or county level may enter into a land grant contract with land user to provide for the grant of land use rights. Land user must pay the land premium as provided by the land grant contract. After payment in full of the land premium, land user may register the land use rights for a site intended for real estate development. Land use rights may be obtained through grant, except for land intended for purposes subject to premium-free allocation by the PRC government pursuant to the PRC laws and regulations. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

Under the Regulations on Grant of State-Owned Land Use Rights by Agreement (協議出讓國有土地使用權規定) promulgated by MLR on June 11, 2003, except for the project that must be granted through public tender, auction and listing-for-sale as required by the relevant laws and regulations, land-use rights may be granted via transfer agreements, and the land premium for the transfer agreements of the state-owned land use rights must not be lower than 70% of the benchmark land price.

Under current PRC laws and regulations on land administration, land for real estate development may be obtained only by grant except for land-use right obtained through allocation. Under the Regulations on the Grant of State-Owned Land Use Right through Public 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), issued by MLR on April 3, 2002 and as amended in September 2007, land for industry and commercial use, tourism, entertainment and commodity housing development or on which there are two or more intended land users must be granted by way of public tender, public auction or listing-for-sale. The procedures are as follows:

- The land authority under the government of the city and county, as the grantor, must make an announcement at least 20 days prior to the date of the proposed competitive bidding,

public auction or listing-for-sale. The announcement must include basic particulars such as land parcel, qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit of the bid.

- The grantor must conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive bidding, public auction or listing-for-sale.
- After determining the winning tender or the winning bidder by the competitive bidding, public auction or listing-for-sale, the grantor and the winning tender or winning bidder must then enter into a confirmation. The grantor should return the bidding or tender deposit to other bidding or auction applicants.
- The grantor and the winning tender or winning bidder must enter into a land grant contract according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the land premium of the state-owned land use rights.
- The winning tender or winning bidder should apply for the land use rights registration after paying off the land premium in full under the land grant contract. The local governments at or above the county level will issue the land use rights certificates.

According to the Law of the People's Republic of China on the Administration of Urban Real Estate (中華人民共和國城市房地產管理法), promulgated by NPC on July 5, 1997 and amended on August 30, 2007 and further amended on August 27, 2009, upon signing of the land grant contract, 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 and resource authorities for the issuance of the land use right certificate, and the land use right certificates may not be issued in proportion to the land premium paid under the land grant contract. Upon expiration of the term of grant, the grantee may apply for renewal of the term. If such application is approved, a new contract shall be entered into to renew the grant, and a grant premium shall be paid.

On April 1, 2017, the MOHURD and the MLR 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), which provides, among others, that local authorities should adopt examination and approval procedure to insure that property developers use legitimate self-owned funds to acquire lands.

Pre-examination of the Construction Sites

When carrying out the feasibility study for a construction project, the construction entity or the developer must make a preliminary application for construction on the relevant site to the relevant land administration authorities in accordance with the Measures for Administration of Examination and Approval for Construction Land (建設用地審查報批管理辦法) promulgated by MLR in March 1999, as amended in November 2010 and November 2016, and the Measures for Administration of Preliminary Examination of Construction Project Land (建設項目用地預審管理辦法) promulgated by MLR in July 2001, as amended in October 2004, November 2008 and November 2016. After receiving the preliminary application, the land administration authorities will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning

plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authorities at the relevant city or county level will sign a land grant contract with land user and issue an approval to the construction entity or the developer.

Planning for a Real Estate Project

Under the Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by MOHURD in December 1992, as amended in January 2011, the grantee under a land grant contract, i.e. a real estate developer, must further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organize the necessary planning and design work. Planning and design proposals in respect of a real estate development project are again subject to relevant reporting and approval procedures required under the Law of the People's Republic of China on Urban and Rural Planning (中華人民共和國城鄉規劃法) promulgated by the NPC in October 2007, effective as of January 1, 2008 and amended on April 24, 2015, and local statutes on municipal planning. Before the construction of buildings, structures, roads, pipelines and other construction projects, the construction entity must apply to the planning administration authorities at the municipal or county level for a construction works planning permit. Upon approval by the authorities, a permit for construction works planning will be issued by the relevant municipal planning authority.

However, if a construction project is conducted without obtaining the planning permit on construction project or by violating the provisions of the planning permit on construction project, the competent department of urban and rural planning of the local government at or above the county level shall order it to stop construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% but no more than 10% of construction cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit or confiscate the real objects or the relevant income when impossible to dismantle it, and may also impose a fine of not more than 10% of construction cost.

Expropriation of and Compensation for Housing on State-owned Land

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

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

The amount of compensation for value of housing being expropriated shall not be less than market price of the real estate similar to it on the announcement date of the housing expropriation decision. The value of housing being expropriated shall be appraised and determined by a real estate price appraisal institution with corresponding qualification according to the housing expropriation

appraisal measures. A party that objects to the value of the housing being expropriated appraised and determined may apply to the real estate price appraisal institution for review of the appraisal. A party that objects to the review result may apply to the real estate price appraisal expert committee for authentication.

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

Construction of a Real Estate Project

When the construction site has been properly prepared and is ready for the commencement of construction works, a developer must apply for a permit for commencement of works from construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by MOHURD in June 2014 and effective in October 2014, and amended on September 28, 2018.

According to the Notice regarding Strengthening and Regulating the Administration of Newly-commenced Projects (國務院辦公廳關於加強和規範新開工項目管理的通知) issued by the General Office of the State Council on November 17, 2007, before commencement of construction, all kinds of projects shall fulfill certain conditions, including, among other things, compliance with national industrial policy, development plan, land supply policy and market access standard, completion of all approval and filing procedures, compliance with zoning plan in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permit or report.

Completion of a Real Estate Project

According to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) promulgated and implemented by the State Council on January 30, 2000 and amended on October 7, 2017, the Measures for Reporting Administration of Acceptance Examination upon Completion of Housing Construction Projects 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 MOHURD on October 19, 2009, and the Provisions on Acceptance Examination upon Completion of Housing Construction and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收規定) promulgated by MOHURD on December 2, 2013, upon completion of construction of a project, a property developer must apply for the acceptance examination to the property development authority under government at the county level or above and report details of the acceptance examination, upon which a “Record of Acceptance Examination upon Project Completion” will be issued. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. Where a property project is developed in phases, an acceptance examination may be carried out for each completed phase.

In August 2008, the State Council issued the Regulations on Energy Efficiency for Civil Buildings (民用建築節能條例), which regulates energy consumption and utilization efficiency of civil buildings. According to this regulation, the design and construction of new buildings must meet the statutory criteria on energy efficiency for buildings. A project which fails to meet such criteria may not receive approval for commencement of construction or completion acceptance.

IDLE LAND

According to the Measures on the Disposal of Idle Land (閒置土地處置辦法) promulgated by MLR on April 28, 1999, as amended in June 2012, a parcel of land can be defined as idle land under any of the following circumstances:

- the developer fails to commence development and construction of land after one year from the construction commencement date as stipulated in the state-owned construction land use rights grant contract or in the land allocation decision;
- the development and construction of the land has begun, but the area developed and constructed is less than one third of the total area to be developed or the invested amount is less than 25% of the total amount of investment, and development and construction has been continuously suspended for one year.

If the construction works have not yet started after one year from the prescribed date of commencement, an idle land fee of 20% of the land grant premium or allocation price may be imposed on the land user. If the construction works have not begun after two years from the prescribed date of commencement, the right to use the land can be taken back by the state without any compensation. However, the above sanctions may not apply if the delay in commencement of construction is caused by force majeure or acts of government.

On September 8, 2007, MLR promulgated the Notice on Strengthening the Handling of Idle Land (關於加大閒置土地處置力度的通知). This Notice provides the principles of dealing with idle land. The Grant of State-owned Land Use Right can only be transferred after the payment of compensation for land, settlement and completion of the land development at an earlier stage. The notice also prescribes that the State-owned Land Use Right Certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

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 calls for the full and effective use of existing construction land and the preservation of farm land. The notice also emphasizes the enforcement of the current rules on assessing idle land fees at a rate equal to 20% of the land premium for any land left idle for over one year but less than two years. The notice also establishes an additional land premium surcharges on idle land and authorizes MLR to formulate regulations to implement such surcharges. The notice further urges financial institutions to exercise caution when they process loan applications from property developers that have failed to commence construction, 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. The notice indicates that the relevant governmental authorities will formulate and issue additional rules and regulations on these matters.

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

MEASURES ON LAND SUPPLY AND MANAGEMENT

In September 2003, MLR promulgated the Notice on Strengthening the Land Supply Management and Promoting the Sustainable Sound Development of Real Estate Market (關於加強土地供應管理促進房地產市場持續健康發展的通知), as amended in December 2010, which provides that land supply for luxury commodity housing must be strictly controlled.

According to the Opinions on Certain Issues relating to Voluntary Examination and Rectifying of Land Market (關於進一步治理整頓土地市場秩序中自查自糾若干問題的處理意見) promulgated by MLR on October 13, 2003, land must be restored to its original use if the development of such land fails to comply with the overall land use requirements, unless such land has been developed for construction and restoration is impossible to achieve, in which case the overall land use requirements shall be modified so the respective amount of basic farmland, cultivated land and land for building will remain unchanged. Similarly, restoration of land to farmland or to its original use is required when a land development project lacks construction feasibility or is short of project funding, even though a proper approval is in place. Idle land that has been supplied for construction purposes shall be disposed of according to relevant stipulation governing idle land. However, exceptions are allowed when pre-approval has been granted by local authorities, or if a project development contract has been executed and between local authorities and developers prior to July 1, 2002. On March 31, 2004, MLR together with the Ministry of Supervision promulgated the Notice of Enforcing and Supervising the Transfer of Operative Land Use Rights through Tenders, Bidding and Public Auction (關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知), which expressly required that after August 31, 2004, no transfer of land use rights will be allowed in the form of agreement in the name of issues left over from the past.

On May 30, 2006, MLR promulgated an Urgent Notice on Currently Strengthening Further Strict Land Management (關於當前進一步從嚴土地管理的緊急通知), which provides that land grant for real estate development must be conducted via invitation for bids, auction and listing, and land supply for low to medium-priced and/or small to medium-sized ordinary commercial residential housing (including affordable housing) and for low-rental residential housing must be given priority, and land supply for low-density and/or large-sized residential housing must be strictly restricted. In addition, the notice provides that land supply for new villa project must be suspended.

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) issued by State Council on April 29, 2004 restated the principle of basic farmland protection and the strict administration of the approval process for construction land.

On August 31, 2006, the State Council issued the Notice on Issues relating to Strengthening of Land Control (關於加強土地調控有關問題的通知), which provides for the administration of receipt and disbursement of land premiums, tax policies modification relating to construction land, and establishment of a publicity system for price standards with respect to granted state-owned land use rights.

On September 30, 2007, MLR issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties in Housing of Urban Low-Income Family and Further Strengthening the 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) as amended on December 3, 2010, to further

enhance the control of land supply, which stipulates that the supply of the land to be developed for low-rent housing, economic housing and housing at low or medium price and of small or medium size must be no less than 70% of the total residential land supply of the current year; the land and resources authorities must control the area of each parcel of land and increase the number of parcels of land to be supplied, in order to prevent the hoarding of land by property developers. Property developers must develop their land according to the terms of the relevant land grant contracts. Generally, the development period of each parcel of land may not exceed three years.

In order to control the land market and promote reasonable land utility, the MLR, the MOF and the PBOC jointly promulgated the Administrative Measures on Land Reserve (土地儲備管理辦法) on November 19, 2007, which regulates the land development and reserve by land reserve entities and affiliates of the land authorities at city or county level, before the land authorities grant land use rights according to relevant laws and regulations. The enterprises must be selected through public tender to conduct the preliminary land development involving road development, supply of water, power and gas, telecommunications, lighting, landscaping and land leveling etc. according to applicable laws and regulations.

On November 18, 2009, the MOF, MLR, PBOC, the Ministry of Supervision and the National Audit Office jointly issued the Notice on Further Strengthening the Management of Revenue and Expenditure from Land Granting (關於進一步加強土地出讓收支管理的通知) to require a minimum down payment of 50% of the land premium relating to land purchases from the PRC government. The notice also provides that the installment period stipulated in the relevant land grant contracts may not exceed one year generally, provided that, for special projects, upon collective approval by the relevant government authorities, the installment period stipulated in the relevant land grant contracts can be two years. Developers will not be permitted to buy new land if they fail to pay such land premium in time in full. The new rules also forbid local governments from giving discounts to developers or allowing developers to delay payments except as stipulated by the State Council.

MLR 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 this notice, the land provision for affordable housing, redevelopment of shanty towns and small/medium residential units for occupier owner should be no less than 70% of total residential construction land supply, and the land supply for large residential units will be strictly controlled and land supply for villa projects will be banned. This notice also requires that the lowest land grant price should not be less than 70% of the benchmark land price in which the granted land is located and the real estate developers' bid deposit should not be less than 20% of the lowest grant price. The land grant contract must be executed within 10 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 contract. The remaining payment must be paid in accordance with the land grant contract, but not later than one year. If the land grant contract is not executed in accordance with the requirements above, the land may not be delivered and the deposit may not be returned. If no land premium is paid after the execution of the land grant contract, the land must be withdrawn.

On September 21, 2010, MLR and MOHURD jointly promulgated the Notice of Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulates, among other things, that: (i) at least 70% of land designated for construction of urban housing must be used for affordable housing, housing for resettlement of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, the supply of land designated for small to medium-sized, price-capped housing must be increased; (ii) developers and their controlling shareholders (as defined under PRC laws) are prohibited from participating in land biddings before the rectification of certain misconduct, including (1) illegal transfer of land use rights; (2) failure to commence required construction within

one year from the delivery of land under land grant contracts due to such developers' own reasons; (3) non-compliance with the land development requirements specified in land grant contracts; and (4) crimes such as swindling land by forging official documents and illegal land speculation; (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land grant contract and complete construction within three years of commencement; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of lands and undeveloped land is prohibited.

In December 2010, MLR promulgated the Notice on Strict Implementation of Policies regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which provides, among other things, that: (i) cities and counties that have less than 70% of their residential land supply designated for affordable housing, housing for redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of this year; (ii) land and resource authorities in local cities and counties will report to MLR and provincial land and resource authorities, respectively regarding land with a premium rate of more than 50%; (iii) land designated for affordable housing which is used for property development against relevant policies or involved illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, changing the plot ratio without approval is strictly prohibited.

In January 2011, the State Council issued the Notice on Issues relating to Further Regulating the Control of Property Market (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) which specifies that if a real estate developer fails to obtain the construction permits or fails to commence the construction within two years from the designation of land for real estate development, the granted land use rights will be forfeited and an idle land penalty will be imposed. A real estate developer is further restricted from transferring land and real estate development projects if the amount of real estate development investment (excluding the land grant fee) incurred is less than 25% of the total investment amount in respect of the subject project. MLR issued the Notice of Diligently Carrying out Real Estate Land Use Management and Regulation (關於做好2012年房地產用地管理和調控重點工作的通知) on February 15, 2012, requiring land users to submit written reports to land and resources departments at the time of or prior to project commencement and completion.

Base on the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of Real Property Market (關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知), which was jointly promulgated by the MLR and the MOHURD and effective on July 19, 2012, all local governments shall strictly enforce the macroeconomic policy on real property market. The grant of real property land shall not exceed the upper limit of area and the grant of two or more bundled parcels of land or undeveloped lands is prohibited. The plot ratio of residential land shall not be less than one. Residential construction projects shall be commenced within one year from the land title delivery date which stipulated in the land allocation decision or land grant contract, and shall be completed within three years from the date of commencement. Inspection of land bidders' qualification shall be strictly implemented to preclude bank loans from being used to pay for the land premium. The competent authority of land and resources shall forbid the land users from participating the land bidding for a certain period if the land users: (1) fail to pay land premium in time; (2) leave the land idle; (3) reserve lands for future development or speculation; (4) commit to a construction scale beyond its actual development capacity; or (5) fail to perform land use contract.

On September 6, 2012, MLR promulgated the Notice on Strictly Carrying out Land Use Standards and Vigorously Promoting the Economical and Intensive Use of Land (國土資源部關於嚴格執行土地使用標準大力促進節約集約用地的通知), which provides, among other things, that: (i) if lands for construction are in the Catalogue of Prohibited Land Project, or fail to comply with the requirements in the Catalogue of Restricted Land Project, i.e. fail to comply with industrial project control index requirement in investment intensity, plot ratio, building coefficient, administrative office and living service area ratio and green ratio, or total area of land of engineering construction projects or area of land of one or several functional partitions exceed land quota control limit, or parcel area and plot ratio fail to meet the residential requirements, then the project shall not apply for land approval, supply and use; (ii) for commercial lands like industrial, commercial, tourism, entertainment, and commercial residential land, which must be granted by tender, auction and listing, municipal and county land and resources departments must state explicitly the control requirement and use standards for such land when formulating land grant plan and land grant documents, implement national regulations and publish the standards to the public.

According to the Provisions on the Economic and Intensive Use of Land (節約集約利用土地規定), which was promulgated by the MLR on May 22, 2014 and effective since September 1, 2014, land users and land premium for commercial lands shall be determined by bidding. Land premium for compensable use of land shall not be less than lowest price standard for use of land stipulated by the State. Land premium shall not be reduced or relieved in any way, such as exchanging projects with land, returning fees after collecting, granting subsidies or rewards.

On April 1, 2017, the MOHURD and the MLR 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), which provides, among others, that local government should adjust land supply on the basis of the inventory turnover cycle of the commercial residential property. If the cycle is longer than 36 months, no land shall be supplied; if the cycle lasts from 18 months to 36 months, land supply shall be reduced; if the cycle lasts from six months to 12 months, land supply shall be increased; if the cycle is shorter than six months, land supply shall be increased significantly. In addition, the circular stipulates that local authorities should adopt examination and approval procedure to insure that property developers use legitimate self-owned funds to acquire lands.

On 19 May 2018, the MOHURD issued the Notice on Further Improving the Macroeconomic Control of the Real Property Market (住房城鄉建設部關於進一步做好房地產市場調控工作有關問題的通知), which provides that the proportion of the residential land shall be raised, and shall be no less than 25 per cent of the urban construction land. The proportion of the land used for public housing, rental housing and joint property rights housing shall reach 50 per cent or more in 3 to 5 years.

SALE OF COMMODITY PROPERTIES

Under the Measures for Administration of Sale of Commodity Properties (商品房銷售管理辦法) promulgated by the Ministry of Construction in April 2001, sale of commodity houses may include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Urban Commodity Properties (城市商品房預售管理辦法), or the Urban Pre-sale Regulation, promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and July 2004, and other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC

laws and regulations, a presale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. The pre-sale proceeds of commodity buildings must be used to develop the relevant project so pre-sold. A commodity building may be sold before completion only if:

- the land premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
- a construction works planning permit and a construction permit have been properly obtained;
- the funds invested in the development of the commodity buildings put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been properly ascertained; and
- a pre-sale permit has been obtained through pre-sale registration.

Commodity buildings may be put to post-completion sale and delivery after they have passed the completion examination and 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 relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

According to the Urban Real Estate Law and the Urban Pre-sale Regulation, for the pre-sale of a commodity property, the developer must sign a contract on the pre-sale of the commodity property with the purchaser. The developer must, within 30 days of signing the contract, apply for registration and record of the contract for pre-sale of commodity property at the relevant departments of the county-level governments. Property administrative departments are required to use network information technology to gradually implement a web-based registration of pre-sale contracts.

On May 9, 2005, the General Office State Council issued the Circular on Forwarding the Opinion of MOHURD and Other Department on Doing Well on Stabilizing Residential Property Prices (國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作的意見的通知) which provides the following with respect to commodity property pre-sales and sales:

- The purchaser of a pre-sold commodity property is prohibited from transferring such property that is still under construction. Before a pre-sold commodity property is completed and delivered and the purchaser obtains the individual property ownership certificate, the property administrative department must not give effect to any transfer of the commodity property. If there is discrepancy between the name of the applicant for property ownership and the name of the purchaser in the sales contract, the property ownership registration administration must not record the application of property ownership; and
- A real name identification system must be applied to house purchase and an immediate record filing network system for pre-sale contracts of commodity buildings must be established.

On April 13, 2010, MOHURD issued the Notice on Further Enhancing the Supervision of the Real Estate Market and Perfecting the Pre-sale System of Commodity Houses (關於進一步加強房地產市場監管完善商品住房預售制度的有關問題的通知). Pursuant to the notice, without the pre-sale approval, the commodity properties are not permitted to be pre-sold and the real estate developers are not allowed to charge the buyer any deposit or pre-payment or payment of the similar nature. In addition, the notice urges local governments to enact regulations on sale of completed commodity properties in light of the local conditions, and encourages property developers to engage in the practice of selling completed commodity properties.

Pursuant to the Administration of sale of commodity properties (商品房銷售管理辦法) promulgated by the Ministry of Construction on April 4, 2001 which became effective on June 1, 2001, a property developer shall not sell uncompleted commercial properties through after-sale lease guarantee or by any such means in covert forms. After-sale lease guarantee stipulated in the aforementioned regulatory measures refers to that a property developer sells commodity houses by making commitment to lease back or assist buyers in renting out commercial properties within a certain period after sale. A property developer may not sell commercial properties by means of cost-returned sale or any such means in disguised forms. The cost-returned sale in these measures refers to an arrangement under which a property developer sells commercial properties and refunds periodically to the purchaser certain portions of the sales proceeds.

On March 16, 2011, the NDRC promulgated the Regulations on Clearly Marking Price in the Sale of Commodity Houses (商品房屋銷售明碼標價規定), according to which the sale of commodity housing shall mark prices on a per unit basis, and show to the public the collection of handling fees and property management charges. A commodity house operator shall not charge any additional fees other than those clearly marked during the property sale. After the price of a commodity house is clearly marked, the developer may reduce the price or provide discounts, however, any increase in price shall be re-filed with the competent authority for record. These regulations also apply to the selling of second hand property by real estate agents.

According to the Circular on Further Regulating Operations of Real Estate Developers to Safeguard the Real Estate Market Order (關於進一步規範房地產開發企業經營行為維護房地產市場秩序的通知) promulgated by MOHURD on October 10, 2016, real estate developers conducting improper operations will be subject to investigation and punishment according to the law. Improper operations include releasing and spreading false housing information and advertisements, maliciously pushing higher and artificially inflating housing prices through fabricating or spreading information on rising housing price, and other operations.

DOCUMENT OF TITLE

In the PRC, there are two registers for property interests. Land registration is achieved by the issuance of a land use right certificate by the relevant authority to the land user. It is evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issuance of a building ownership certificate (房屋所有權證) or a real estate ownership certificate (房地產權證) (the “Real Estate Ownership Certificate”) to the owner. It is evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land. According to the Land Registration Regulations (土地登記規則) (the “Registration Regulations”) promulgated by the State Land Administration Bureau (國家土地管理局) on December 18, 1995 and implemented on February 1, 1996, the Land Registration Measures (土地登記辦法) promulgated by the Ministry of Land and Resources on December 30, 2007 and effective on February 1, 2008, and the Building Registration Measures (房屋登記辦法) promulgated by the MOHURD on February 15, 2008 and effective on July 1, 2008, all land use rights and building ownership rights which are duly registered are protected by the law.

In connection with these registration systems, real estate and land registries have been established in the PRC. In most cities in the PRC, the above systems are separate systems. However, in Shenzhen, Shanghai, Guangzhou and some other major cities, the two systems have been consolidated and a single composite real estate ownership certificate (房地產權證) will be issued evidencing the ownerships of both land use rights and the building erected thereon.

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, which provides, among others, the following:

- The real estate authorities shall establish a uniform real estate registration book to record, among others, collective land ownership, ownership of constructions and structures, ownership of forests and woods, construction land use rights, sea use rights and mortgages; and
- The Ministry of Land and Resources shall in coordination with other related departments, establish a uniform management platform for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform management platform to ensure the real-time sharing of registration information at the national, provincial, municipal and county levels.

The Ministry of Land and Resources promulgated 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. The implementing rules authorize the real estate registration authority to perform site inspection following the acceptance of an application for real estate registration and set out regulations regarding information management of real estate registration.

LEASING OF BUILDINGS

The Measures for Administration of Lease of Commodity Housing (商品房屋租賃管理辦法) promulgated by the MOHURD on December 1, 2010 and implemented on February 1, 2011, requires parties to a leasehold arrangement of a property shall register the leasing agreement with property administrative authorities within 30 days after entering into such leasing agreement under local government at the city or county level where the property is situated. In addition, enterprise may be imposed a fine of RMB1,000 to RMB10,000 and individuals of RMB1,000 or less if they do not register leasing agreement within time limit required by competent authorities.

MORTGAGE OF REAL ESTATE

Under the Urban Real Estate Law, the Guarantee Security Law of the People's Republic of China (中華人民共和國擔保法) promulgated by the NPC on June 30, 1995 and implemented on October 1, 1995, when a mortgage is created on a property legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the property is situated. The land use rights of state-owned lands acquired through means of grant, when being mortgaged, the properties on the land must also be mortgaged at the same time. The mortgager and the mortgagee must sign a mortgage contract in writing. According to Measures on the Administration of Mortgage of Urban Real Estate (城市房地產抵押管理辦法) promulgated by the Ministry of Construction of PRC on August 15, 2001, within 30 days after a property mortgage contract is signed, the parties to the mortgage must register the mortgage with the property administrative authority at the location where the property is situated. A property mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a building ownership

certificate has been obtained, the registration authority must make an entry under the “third party rights” item on the original building ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity property put to pre-sale or under construction, the registration authority will record the details on the mortgage contract. If construction of a property is completed during the term of a mortgage, the parties involved must re-register the mortgage of the property after issuance of the certificates evidencing the ownership of the property.

The Property Rights Law further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless a specific prohibition under another law or regulation applies.

LOAN FOR REAL ESTATE

The PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (關於進一步加強房地產信貸業務管理的通知) on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of residential development, individual home mortgage and individual commodity properties as follows:

- The property loan by commercial banks to property enterprises must be granted only by the item of property development rather than cash flow loan item or other loan item. Any kind of loan cannot be granted for the projects which do not have land-use rights certificates, construction land planning permits, construction works planning permits and construction permits;
- Property loans may be granted to property enterprises who are qualified for property development, rank high in credibility and have no overdue payment for construction. Such loans must be given in full support of residential housing projects which conform to the purchasing capacity of families with medium-to-low income, and must be properly restricted where projects involve building properties of large size and/or cover large area, such as luxury commodity houses and villas. For property enterprises with commodity houses of high vacancy rate and debt ratio, strict approval procedures must be applied to their new property development loans and their activities must also be subject to close monitoring;
- Commercial banks may not grant loans to property developers to pay off land premium;
- Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the first installment remains to be 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the first installment must be increased; and
- When a borrower applies for a mortgage loan for an individual commercial use building, the mortgage ratio may not be more than 60%. In addition, the term of loan may not be more than 10 years and the commodity building must be duly completed and accepted after the relevant governmental inspection.

The first installment requirement was subsequently increased to 30% of the property price for residential units with a unit floor area of 90 sq.m. or more, effective on March 26, 2005. See “— Measures on Stabilizing Housing Price” below.

In a Circular on Facilitating the Continuously Healthy Development of Property Market (關於促進房地產市場持續健康發展的通知) issued by the State Council in August 2003, a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high quality commodity houses. Besides, the government also staged a series of measures on the lending for residential development. They included, among others, strengthening efforts in housing provident fund collection and the granting of loans, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (商業銀行房地產貸款風險管理指引) issued by the CBRC on August 30, 2004, any property developer applying for property development loans must have at least 35% of capital required for the development.

According to the Notice of the PBOC on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposit (中國人民銀行關於調整商業銀行住房信貸政策和超額存款準備金存款利率的通知), promulgated by the PBOC on March 16, 2005, from March 17, 2005, in the cities and areas where the price of houses grows too quickly, the first installment of individual home loans increases from 20% to 30%. The commercial banks can independently determine the specific cities or areas under such adjustment according to special situations in different cities or areas.

In September 2007, the PBOC and the CBRC promulgated a Circular on Strengthening the Administration of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的通知). The circular aims to tighten the control over real-estate loans from commercial banks to prevent excessive credit granting. The measures adopted include:

- for a commercial property buyer, (i) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (ii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, (iii) limiting the terms of such bank loans to no more than 10 years, although the commercial banks are allowed flexibility based on its risk assessment;
- for a purchaser 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 to be decided by reference to commercial properties;
- prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties;
- prohibiting commercial banks from lending to property developers solely for the payment of land premiums; and
- commercial properties purchased by loans must have been completed and passed completion acceptance inspection.

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.

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, as of October 27, 2008, the ratio of down payments will be modified. The minimum interest rate for commercial individual housing loans will be 70% of the benchmark loan interest rate and the minimum down payment ratio will be adjusted to 20%. Related matters are as follows:

- Loan interest rate and down payment ratio granted by the financial institutions to their clients shall be determined based on the following factors whether or not it is the first time for the borrower to buy the house, whether or not the house is used for self occupancy, whether or not the house type and GFA conform to an ordinary residential house, and other risk factors such as the borrower's credit record and repayment capacity.
- Financial institutions may provide preferential treatments on loan interest rate and down payment ratio to residents for their first purchase of ordinary self-occupied houses and improved ordinary self-occupied houses. For non-self-occupied houses and non-ordinary residential houses, financial institutions may properly raise the loan conditions.
- As to commercial individual housing loans granted, financial institutions shall determine the interest rate for the outstanding portion thereof, in accordance with Section 1 of this notice, on the basis of reasonable assessment of loan risks and according to the original loan contracts. The down payment ratio under the original loan contracts shall remain effective.
- The policy that the borrower's monthly expenditure on repayment of housing loans shall not exceed 50% of his/her monthly income remains unchanged.

The Notice on Promoting Economic Use of Land through Finance (關於金融促進節約集約用地的通知) issued on July 29, 2008, emphasizes that the financial institutions should tighten their financing for construction projects, municipal infrastructures and industrial land use projects, rural collective construction land use projects, and commercial real estate projects. The commercial banks are prohibited from granting loans to property developers for payment of land premium and to the property projects such as the followings:

- construction projects that fall into the category of prohibited land use projects;
- property development projects on land earmarked for use as rural collective construction land; and
- property development projects where the relevant land has been idle for two years or more.

On September 29, 2010, PBOC and CBRC jointly issued the Notice on Relevant Issues regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題的通知), according to which, the minimum down-payment has been raised to 30% of or all first home purchases, and commercial banks throughout China are required to suspend mortgage loans for purchases of a customer's third or additional residential property. For a mortgage on the second residential property, the down-payment must not be less than 50% of the purchase price and the

interest rates must not be less than 1.1 times the base rate. All banks are prohibited from lending for the purposes of new development projects by property companies that have a record of speculating on idle land, changing the land use and nature, delaying development time, manipulating market prices or performing other non-compliant conducts.

On November 2 2010, the Ministry of Finance, the MOHURD, the CBRC and the PBOC jointly issued the Notice on Regulations of Policies Concerning 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 GFA is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the GFA is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. On January 11, 2011, the State Council issued the Notice Concerning Further Strengthening the Macroeconomic Control of the 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.

On February 26, 2013, the General Office of the State Council promulgated the Notice to Further Enhance the Regulation and Control of the Real Estate Market (關於繼續做好房地產市場調控工作的通知), which provides, among other things, that in cities where the housing prices are increasing at an excessively high rate, the local counterparts of the PBOC may further increase down payment ratio and interest rates for loans to purchase second residential properties in accordance with the price control policies and targets of the corresponding local governments.

On September 29, 2014, the PBOC and the CBRC jointly issued the Notice on Further Improving Financial Services for Residential Property (關於進一步做好住房金融服務工作的通知), which stipulates that (i) the minimum mortgage loan interest rate for first-time purchasers of residential property is 70% of the benchmark lending interest rate; (ii) where a household that owns a residential property and has paid off its existing mortgage loan applies for a new mortgage loan to purchase another residential property to improve living conditions, the bank may apply the aforesaid mortgage loan policy for first-time purchasers of residential property; and (iii) in cities that have lifted restrictions on the purchase of residential property by residents or those that have not imposed such restrictions, when a household that owns two residential properties or more and has paid off its existing mortgage loans applies for a new mortgage loan to purchase another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency and credit standing of the borrower and other factors, to decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions required by the related policies.

On March 30, 2015, the PBOC, the CBRC and the MOHURD jointly issued the Notice Concerning the Issues of the Policy of Personal Housing Loan (關於個人住房貸款政策有關問題的通知). The notice lowers the minimum down payment to 40% of the property price for households that own a residential property and have not paid off their existing mortgage loan applying for a new mortgage loan to buy a second residential property to improve its living conditions.

On August 27, 2015, the MOHURD, the Ministry of Finance and the PBOC jointly issued the Notice on the Adjustment of the Rate of the Minimum Down Payment for Personal Housing Loans from Housing Provident Fund (關於調整住房公積金個人住房貸款購房最低首付款比例的通知). The notice lowers the minimum down payment rate payable by households from 30% to 20% when such households, which own a residential property and have settled the housing loans, apply for loans from the housing provident fund for a second residential property to improve living conditions.

On February 1, 2016, the PBOC and CBRC jointly issued the Notice on the Adjustment of Individual Housing Loans Policies (關於調整個人住房貸款政策有關問題的通知). The notice provides that, in cities where restriction on the purchase of residential property is not imposed, the minimum down payment is 25% of the property price for a household applying for personal housing commercial loans to purchase its first ordinary residential property, which may be further decreased by 5% by local authorities. For existing residential property household owners which 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%.

REAL ESTATE MANAGEMENT

According to the Regulation on Property Management (物業管理條例) enacted by the State Council on June 8, 2003, effective September 1, 2003, and as amended on August 26, 2007 and on February 6, 2016 and March 19, 2018, the government implements a qualification scheme system in monitoring the property service enterprises. Under the Measures for the Administration of Qualifications of Property Service Enterprises (物業服務企業資質管理辦法) promulgated by the MOHURD in March 2004 and amended in November 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authorities. However, MOHURD promulgated the Notices on Cancelling Work Relating to Assessment of Qualification of Property Service Enterprise, which cancel the above-mentioned qualification. In March 8, 2018, the Measures for the Administration of Qualifications of Property Service Enterprises was abolished.

In accordance with the above-mentioned Regulation on Property Management and the Property Rights Law, owners in a property project may engage or dismiss its property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the project.

INSURANCE OF A PROPERTY PROJECT

There are no mandatory provisions under the PRC laws, regulations and government rules which require a real estate developer to take out insurance policies for its real estate developments.

MEASURES ON STABILIZING HOUSING PRICE

The General Office of the State Council promulgated a Circular on Stabilizing Housing Price (關於切實穩定住房價格的通知) in March 2005, introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. In April 2005, the Ministry of Construction, NDRC, the MOF, the MLR, the PBOC, the SAT and the CBRC jointly issued the Opinions on Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) with the following guidance:

- where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low cost affordable houses. The construction of low-density, high quality houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design such as building height, plot ratio and green space and to impose such requirements as sale price, type and GFA as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdiction.

- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high quality housing property construction should be strictly restricted.
- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the gain from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.
- Ordinary residential houses with medium or small GFAs and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy all the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 square meters, and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of uncompleted commodity properties by any pre-sale purchaser is forbidden.

In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filled with the relevant government agencies electronically immediately after its execution.

On May 24, 2006, the General Office of the State Council issued the Notice on Forwarding the Opinions of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知). The regulations on the property credit of this are as follows:

- Strictly impose credit conditions on property development. In order to suppress property development enterprises from storing up land housing resources by use of bank loans, commercial banks shall not provide loans to those property enterprises that fail to meet loan conditions, for example, having a project capital less than 35%. For property development enterprises that have much idle land and vacant commodity properties, the commercial banks shall, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity property that has been idle for more than three years as collateral for loans; and
- From June 1, 2006, the proportion of initial payment of individual housing mortgage loans shall not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of self-used housing with loans with gross floor area no more than 90 square meters is still subject to the provisions of the initial payment of housing at 20%.

In December 2008, the State Council issued the Opinions on Promoting the Healthy Development of Real Estate Market (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 must 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 must be determined by the commercial banks based on the benchmark interest rate and the banks' risk assessments.

On January 7, 2010, 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.

In April 2010, the State Council issued the Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities (關於堅決遏制部分城市房價過快上漲的通知), which increases (i) the amount of down payment to 30% of the property price for the purchase of the first property over 90 sq. m.; (ii) the amount of down payment to 50% of the property price for the purchase of the second property and the mortgage interest rate to be no less than 1.1 times the benchmark rate in China and (iii) the amount of down payment and the mortgage interest rate for additional properties significantly as determined by the banks in accordance with their risk management policies.

On September 29, 2010, the MOF, the SAT and MOHURD jointly issued the Notice on Adjustments to Deed Tax and Individual Income Tax on Real Estate Transactions (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), according to which, the deed tax will be reduced to 50% on the purchase of an ordinary residence for a family(including the purchaser, his/her spouse and children under 18) purchasing their first residence that is also the only housing belonging to the family; in such a case, if the unit floor area is less than 90 sq.m., the deed tax will be at 1%. Purchaser of a residence within one year after his/her sale of former residence will not enjoy the same individual income tax exemption.

On January 26, 2011, the General Office of the State Council issued the Notice on Further Strengthening Regulation and Control of Real Property Markets (關於進一步做好房地產市場調控工作有關問題的通知) requiring, among other restrictive measures: (i) a minimum down payment of at least 60% of the total purchase price with a minimum mortgage lending interest rate of 110% of the benchmark rate published by PBOC for the purchase of a second residential property; and (ii) in municipalities directly under the central government, cities listed on state plans, provincial capitals, and cities where the housing prices are overly high or increasing at an excessively high rate (the "Specified Cities"), local residents (including their spouses) and minor children) with two or more residential properties, non-local residents with one or more residential properties and non-local residents that are unable to provide documentation certifying payment of local tax or social security for a specified time period, are not permitted to purchase any (further) residential properties located in the Specified Cities.

In connection with the aforesaid notices issued by the State Council, various municipal governments where we have been developing real estate projects have promulgated measures to further control the property markets in their respective cities which include:

Nanchang

On January 20, 2011, the Nanchang municipal government issued the Notice on the Notice on Further Implementation of the Supplemental Opinions on General Real Estate Control Policies and Help the Stable and Health Growth of the Real Estate Market (關於進一步貫徹落實國家宏觀調控政策促進房地產市場平穩健康有序發展的補充意見的通知), under which each household is allowed to purchase only one new residential properties in the five downtown areas of the city since February 1, 2011.

On February 20, 2011, Nanchang municipal government further issued Opinions on Nanchang Municipal's Implementation of State Counsel's Notice on Further Conduct Real Estate Market Control Work (南昌市貫徹落實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意見), under which the minimum down payment in respect of mortgage loans on purchase of the second residential properties is 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. In addition, properties are not allow to sell to the Nanchang resident households who have already purchased two or more residential properties or non-Nanchang resident households who have purchased one or more residential properties or non-Nanchang resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

Jinan

On January 21, 2011, Jinan municipal government issued the Notice on Further Implementation of the Real Estate Control Policies and Help the Stable and Health Growth of the Real Estate Market (關於進一步貫徹落實房地產調控政策促進房地產市場健康平穩發展的通知), under which the minimum down payment in respect of mortgage loans on purchase of the residential properties is 30% of the purchase price. For the resident households who purchase the second residential properties, the minimum down payment in respect of mortgage loans increased to 50% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. In addition, each Jinan or non-Jinan resident household is allowed to purchase only one new residential property in the seven downtown areas of the Jinan city until December 31, 2011.

On February 17, 2011, the General Office of Shandong Province government issued the Notice on Implementation of the Guo Ban Fa [2011] No.1 and Further Improving and Strengthening the Real Estate Control Policies (關於貫徹國辦發[2011]1號文件進一步改進和加強房地產市場調控的通知). Pursuant to the Notice, in principle, no properties are not allowed to sell to the Jinan resident households who have already purchased two or more residential properties or non-Jinan resident households who have purchased one or more residential properties or non-Jinan resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

Tianjin

On February 18, 2011, the General Office of Tianjin municipal government issued the Notice on Implementation of the Spirit of the Document of the General Office of the State Council and Further Carrying Out Well the Real Estate Control Policies In Our City (關於貫徹國務院辦公廳文件精神進一步做好我市房地產市場調控工作實施意見的通知). Pursuant to the Notice, the minimum down payment in respect of mortgage loans on purchase of the second residential properties is 60% of the

purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. Moreover, the Tianjin resident households who have already purchased one residential property, non-Tianjin residents who are able to provide one year's tax payment and social security payment are allowed to purchase only one residential property. No properties are not allow to sell to the Tianjin resident households who have already purchased two or more residential properties or non-Tianjin resident households who have purchased one or more residential properties or non-Tianjin resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

Quanzhou

On March 25, 2011, the Quanzhou municipal government office issued the Notice on Implementation Opinions of Further Carrying Out Well the Real Estate Control Work (關於進一步做好房地產市場調控工作的實施意見), pursuant to which, the minimum down payment in respect of mortgage loans on purchase of the second residential properties is 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate, the minimum down payment in respect of housing provident fund mortgage loans on purchase of the second residential properties is 50% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate.

Shenzhen

Pursuant to the Circular of the Office of Shenzhen People's Government on Further Improvement of Control over Our Real Estate Market to Guarantee the Annual Target of Controlling New Housing Price (深圳市人民政府辦公廳關於進一步做好我市房地產市場調控工作確保年度新建房價控制目標的通知) (Shen Fu Ban [2011] No.30) promulgated and implemented by the Shenzhen municipal government on March 29, 2011, the tax payment proof provided by any household without a local registered residence of Shenzhen at the time of home purchase must fulfill the condition of continuous payment in the recent 12 months or more (excluding delayed payment). For the social insurance payment proof provided by any household without a local registered residence at the time of home purchase, it must satisfy one of the following conditions: (i) the continuous payment of pension and medical insurance in the recent 12 months or more; (ii) the continuous payment of pension and work injury insurance in the recent 12 months or more; or (iii) the continuous payment of medical insurance and work injury insurance in the recent 12 months or more.

On October 31, 2013, the Shenzhen Central Sub-branch of the PBOC promulgated the Notice of Adjusting the Differentiated Credit Extension Policies Based on Housing Types in Shenzhen City (關於調整深圳市差別化住房信貸政策的通知), which raises the percentage of the minimum down payment for second-home purchases from 60% to 70% of the total purchase price from November 6, 2013. The notice also reiterates the relevant national differentiated credit extension policies based on housing types, namely the minimum down payment shall be 30% of the purchase price of the first commodity residential property, and commercial banks shall suspend granting mortgage loans to families that purchase a third or further residential property.

On January 27, 2011, the MOF and SAT jointly issued the Notice on Adjusting the Business Tax Policies upon Transferring Residential Properties by Individuals (關於調整個人住房轉讓營業稅政策的 通知). Pursuant to the notice, business tax will be levied upon the transfer of a residential property by an individual within five years from the date of purchase and the business tax to be levied will be calculated based on the full amount of the sale proceeds. For an individual transferring a non-ordinary

residential property after five years from the date of purchase, the business tax to be levied will be calculated based on the difference between the sale proceeds and the purchase price. An individual transferring an ordinary residential house after five years from the date of purchase will be exempt from the business tax.

The State Council General Office of the PRC promulgated the Notice on Further Regulation and Control of Real Estate Market (關於繼續做好房地產市場調控工作的通知) on February 26, 2013, introducing six policy measures to control the real estate market, including: (i) improving the accountability system for stabilization of house prices; (ii) strictly controlling over house purchase for speculation; (iii) increasing the supply of ordinary residential houses and the land supply for residential houses; (iv) accelerating the planning and construction of subsidized housing projects; (v) tightening the market regulations and forecast management; (vi) accelerating the establishment and optimization of the long-term mechanism for the healthy development of the real estate market.

The highlights of the measure for “control over house purchase for speculation” under the notice are as follows:

- Continuous enforcement of stringent restrictions on commodity housing purchases;
- For cities with soaring house prices, the local branches of the PBOC may further increase the proportion of down payments and interest rates for second-home buyers according to the price control targets and policy requirements for newly-constructed commodity housing of the local governments;
- The taxation department and the housing and urban-rural development department shall work closely together to impose person income tax on the sales of self-owned houses. A tax rate of 20% on the proceeds from the transfer shall be strictly levied upon verification of the value of the houses based on tax collection and housing registration data.

The notice also stipulated that if the number of small- and medium-sized units of a general commodity housing project accounted for more than 70% of the total units to be constructed, the banking financial institutions shall give priority to the financing need of the development of the project subject to credit conditions. In addition, the local authorities shall strengthen the pre-sale fund management and improve their regulatory systems. For overpriced pre-sale commodity housing projects in breach of the guidance of the housing and urban-rural development department or the regulations on pre-sale fund, the approval and issuance of the pre-sale permits may be suspended.

In connection with the aforesaid notices issued by the State Council on February 26, 2013, municipal governments of various cities where we have current property development projects have promulgated measures to further control the respective local real estate markets as follows:

Nanchang

On November 23, 2013, the General Office of Nanchang municipal government issued the Opinions on Further Conduct Real Estate Market Control Work (關於進一步做好房地產市場調控工作的意見), introducing six policy measures to control the real estate market of Nanchang City: (i) increasing the land supply for residential houses; (ii) accelerating the construction of ordinary residential houses to ensure effective supply; (iii) controlling unconscionable housing consumption; (iv) guiding the property developers to price their properties rationally; (v) promoting the construction of subsidized housing projects; and (vi) strengthening the regulation of the real estate market.

The specific measures for “controlling unconscionable housing consumption” under the opinions include:

- the Nanchang branches of the PBOC will further increase the proportion of down payments for second-home buyers according to price control targets and policy requirements of Nanchang City; and
- on the basis of continuous enforcement of stringent restrictions on commodity housing purchases, the period of a local tax payment certificate or social security certificate for non-Nanchang resident households who are permitted to purchase any residential properties is increased from one year to two years.

In December 2013, the Nanchang Central Sub-branch of the PBOC promulgated the Notice of Adjusting the Differentiated Credit Extension Policies Based on Housing Types in Nanchang City (關於調整南昌市差別化住房信貸政策的通知), which raises the percentage of the minimum down payment for second-home purchases from 60% to 70% of the total purchase price from December 15, 2013. The notice also reiterates the relevant national differentiated credit extension policies based on housing types, namely the minimum down payment shall be 30% of the purchase price of the first commodity residential property, and commercial banks shall suspend granting mortgage loans to families that purchase a third or further residential property.

In October 2016, the General Office of Nanchang municipal government issued the Several Opinions on Facilitating the Continuous Stable and Healthy Development of the Real Estate Market (關於促進我市房地產市場持續平穩發展的若干意見), which introduces a quota policy of housing purchase within specific region, sets the minimum down payment ratio in respect of commercial mortgage loans for the first home purchasers to 30%, and suspends the mortgage loans lending to non-resident households for second residential housing purchases or to any third residential housing purchasers.

In March 2017, the General Office of Nanchang municipal government issued the Notice of Further Improving Control over the Residential Real Estate Market (關於進一步做好房地產住宅市場調控工作的通知), which places further restrictions on the mortgage loans.

In September 2017, the General Office of Nanchang municipal government issued the Notice of Further Strengthening Control over the Residential Real Estate Market (關於進一步加強房地產住宅市場調控工作的通知), which provides that from September 23, 2017, all newly traded residential properties in the whole Nanchang city shall not be transferred again within 2 years after obtaining the property ownership certificate.

Tianjin

On March 31, 2013, the General Office of Tianjin municipal government issued the Implementation Opinions on Further Conducting Tianjin’s Real Estate Market Control Work (關於進一步做好我市房地產市場調控工作的實施意見), which includes the implementation of opinions on strict control over purchase of properties for speculation and continuous enforcement of differential policy for housing credit. Specifically, the relevant governmental authority should strictly execute a preliminary examination and re-examination of the qualification for households purchasing their residence and the number of the properties the households have purchased. Moreover, banking and financial institutions should strictly execute the policies for second housing credit and continue to suspend the housing credit for purchasers of their third or more properties.

Hefei

On March 30, 2013, the Hefei municipal government issued the Notices on the Relevant Issues of the Price Control Target in 2013 for Newly-built Residential Housing in Hefei City (關於2013年度全市新建商品住房價格控制目標等有關問題的通知), which adopted a series of measures to control the residential housing price, including among others: (i) increasing the supply of ordinary residential houses and the land supply for residential houses; (ii) accelerating the construction of subsidized housing projects; (iii) strengthening the regulation of transaction order of residential housing; and (iv) strictly executing the policy of clear pricing for the sales of commodity housing.

In September 2016, the General Office of Hefei municipal government issued the Opinion of Further Improving Stable and Healthy Development of the Real Estate Market (關於進一步促進我市房地產市場平穩健康發展的實施意見), which restricts any non-resident households with one or more residential properties in Tianjin to purchase another residential property within specific areas of the city.

In March 2017, the General Office of Hefei municipal government issued the Opinion of Further Improving Control over the Real Estate Market (關於進一步深化我市房地產市場調控工作的實施意見), which blocks non-residential second home purchasers, residential third home purchasers, and any unmarried or divorced persons holding at least one residential property to purchase another residential property in Tianjin city except Binhai New District.

Shenzhen

The Notice of the General Office of People's Government of Shenzhen City on Continuing Adjustment and Control of Property Markets (深圳市人民政府辦公廳關於繼續做好房地產市場調控工作的通知) (Shen Fu Ban [2013] No.12) issued and implemented on March 28, 2013 sets forth specific measures for carrying out the Circular of the General Office of the State Council on the Further Strengthening the Macroeconomic Controls on 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), including among others: (i) strengthening the levy of tax on property; (ii) strictly implementing differentiated credit extension policies based on housing types; (iii) strictly enforcing the purchase restrictions imposed on commodity housing; and (iv) further strengthening the market regulation and expectation management of the property market.

In March 2016, the General Office of Shenzhen municipal government issued the Opinion of Perfecting Housing Security System and Improving the Stable and Healthy Development of Real Estate Market (關於完善住房保障體系促進房地產市場平穩健康發展的意見), pursuant to which the minimum down payment ratio for the mortgage loans is 30% for purchasers without any residential housing in Shenzhen and any record of residential property loans in the past two years, and the minimum down payment ratio for the mortgage loans is 40% for (1) purchasers having no residential housing in Shenzhen but with record of residential property loans in the past two years; or (2) purchasers having one residential property in Shenzhen without existing housing loans.

MAJOR TAXES APPLICABLE TO PROPERTY DEVELOPERS

Enterprise Income Tax

According to the EIT Law, a uniform income tax rate of 25% is currently applied to foreign-invested and wholly foreign owned enterprises in China as well as PRC enterprises. Furthermore, the EIT Law provides that an income tax rate of 20% will normally be applicable to dividends payable to non-PRC enterprise investors to the extent derived from sources within mainland China, unless there exists a tax treaty between China and the relevant jurisdictions in which such

non-PRC enterprise shareholders reside, in which case the relevant tax may be reduced or exempted pursuant to the tax treaty. However, pursuant to the Implementation Rules on the Enterprise Income Tax (企業所得稅法實施條例) promulgated by the State Council on December 6, 2007 and effective on January 1, 2008 and amended on December 29, 2018, a reduced withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors. In addition, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006 and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. The eligibility for the reduced treaty rate is subject to limitations.

In addition, under the EIT Law, enterprises established under the laws of jurisdictions outside China with their “*de facto* management bodies” located within mainland 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.

The EIT Law also provides a five-year transition period starting from its effective date of January 1, 2008 for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower income tax rate under the previously effective tax laws or regulations. The income tax rate of such enterprises will gradually transit to the uniform tax rate of 25% within the transition period. On December 26, 2007, the State Council issued the Circular on Implementing the Transitional Preferential Policies for the Enterprise Income Tax (關於實施企業所得稅過渡優惠政策的通知), under which, for enterprises established before March 16, 2007 and entitled to a preferential income tax rate of 15% under the effective tax laws or regulations prior to the promulgation date of the EIT Law, the transitional income tax rate should be 18%, 20%, 22%, 24% and 25% respectively in 2008, 2009, 2010, 2011 and 2012.

According to the Notice on the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises (關於房地產開發企業所得稅預繳問題的通知) issued by the SAT on April 11, 2008, effective on January 1, 2008 and amended on January 4, 2011, where a real estate development enterprise prepays the corporate income tax by quarter (or month) according to the current actual profit, for the incomes generated from the advance sale prior to the completion of such development products as the dwelling houses, commercial houses and other buildings, fixtures, supporting establishments etc., which are developed and built by the real estate development enterprise, the tax prepayment thereof must be paid by calculating the estimated profit, which is calculated by quarter (or month) according to the preset estimated profit rate and incorporated into the total profit, and it must be readjusted according to the actual profit after the development products are completed and the tax costs are settled.

On March 6, 2009, the SAT issued the Notice on the Measures Dealing with Income Tax of Enterprise Engaged in Real Estate Development (房地產開發經營業務企業所得稅處理辦法) effective on January 1, 2008, which specifically stipulates the rules regarding tax dealing cost of income, tax dealing of cost deduction, verification of calculated tax cost and tax dealing on certain item with respect to the real estate development enterprise according to the EIT Law and its implementation rules.

On August 24, 2009, the SAT issued the Notice Regarding the Publishing of the Administrative Measures for Non-residents to Enjoy the Treatment Under Taxation Treaties (Trial) (關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知), effective on October 1, 2009, and its supplemental regulation promulgated and effective on June 21, 2010, which provide that prior approvals from the relevant local tax authorities are required before a non-resident taxpayer may enjoy any benefits under the relevant taxation treaties.

On May 12, 2010, the SAT promulgated the Notice on the Confirmation of Completion Conditions for Development of Products by Property Development Enterprises (關於房地產開發企業開發產品完工條件確認問題的通知), which provides that a property will be deemed as completed when its delivery procedures (including move-in procedures) have commenced or when the property is in fact put in use. Property developers must conduct the settlement of cost in time and calculate the amount of corporate income tax for the current year.

Business Tax and Value Added Tax (“VAT”)

Pursuant to the Interim Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on December 13, 1993 and implemented on January 1, 1994 and as amended on November 10, 2008, and the Detailed Rules for the Implementation of the Interim Regulation of the PRC on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued and implemented by the MOF on December 25, 1993 and as amended on December 15, 2008 and October 28, 2011, services in China are subject to business tax. Taxable services include sale of real property in China. The business tax rate is from 3% to 20% depending on the type of services provided. Sale of real properties and other improvements on the land attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

On March 30, 2015, the MOF and the SAT jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (關於調整個人住房轉讓營業稅政策的通知), under which business tax is imposed on (i) the full amount of the transfer price upon the transfer of any residential property by an individual owner within two years from the purchase of the residential property; (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner of more than five years from the purchase of the residential property. Business tax is exempted for ordinary residential properties if the transfer occurs after two years from the purchase of the residential property.

Pursuant to the Interim measures on the Management of Value Added Tax of Self-developed Real Estate Project by the Sale of Real Estate Developers (房地產開發企業銷售自行開發的房地產專案增值稅徵收管理暫行辦法) issued on March 31, 2016 and effective on May 1, 2016 by SAT, “self-development” means infrastructure facilities and building erected on the land with land use rights which are developed by a real estate development company (“taxpayer”). These measures are also applicable to a development completed by a taxpayer after such project is taken over. The applicable rate of VAT is 11%. Nevertheless, for taxpayer conducting old real estate projects and who have chosen to apply the simplified tax method, the simplified rate of 5% will be applied in calculating the prepaid VAT. Once the simplified tax method is chosen, it will be applicable for 36 months. “Old real estate projects” generally refer to real estate projects with commencement dates of construction stated in the construction permits prior to April 30, 2016.

Based on the Decision of the State Council to Repeal the Interim Regulation of the People's Republic of China on Business Tax and Amend the Interim Regulation of the People's Republic of China on Value-Added Tax, issued by the State Council on November 19, 2017, the Business Tax is no longer applicable, and the VAT rate would be 11% for taxpayers providing transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovable or transferring the rights to use land, among other things.

According to Notice of MOF and SAT of Taxation on Adjusting Value-added Tax Rates issued on April 4, 2018, starting from May 1, 2018, the value-added tax rate will be lowered from 17 per cent to 16 per cent for manufacturing and some other industries, and from 11 per cent to 10 per cent for transportation, construction, real estate leasing service, sale of real estate, telecommunication and agricultural project.

Land Appreciation Tax (“LAT”)

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) (the “Land Appreciation Tax Provisional Regulations”) which was promulgated by the State Council on December 13, 1993 and effected on January 1, 1994, and as amended on January 8, 2011 and the Detailed Implementation Rules on the Provisional Regulations of the PRC on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例實施細則) (the “Land Appreciation Tax Detailed Implementation Rules”) which was promulgated by the MOF and came into effect on January 27, 1995, any appreciation gain from a transfer of property is subject to LAT. LAT must be charged at four levels of progressive rates: 30% for the appreciation amount not more than 50% of the sum of deductible items; 40% for the appreciation amount more than 50% but not more than 100% of the sum of deductible items; 50% for the appreciation amount more than 100% but not more than 200% of the sum of deductible items; and 60% for the appreciation amount more than 200% of the sum of deductible items. The related deductible items aforesaid include the following:

- amount paid for obtaining the land use rights;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property; and
- other deductible items as specified by the MOF.

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 MOF and the SAT on January 27, 1995 and was abolished on February 2, 2015, LAT shall be exempted under any of the following circumstances:

- taxpayers construct ordinary standard residents for sale (i.e. the residents built in accordance with the local standard for general civilian used residential properties. Deluxe apartments, villas, resorts etc. are not under the category of ordinary standard residence) and the appreciation amount does not exceed 20% of the sum of deductible items;

- property is taken back and repossessed according to laws due to the construction requirements of the state;
- due to redeployment of work or improvement of living standard, individuals transfer self-used residential property, in which they have been living for 5 years or more, subject to tax authorities' approval;
- transfers of real properties under property transfer contracts signed before January 1, 1994, regardless of when the properties are transferred;
- if the property development contracts were signed before January 1, 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the LAT shall be exempted if the properties are transferred within 5 years after January 1, 1994 for the first time. The date of signing the contract shall be the date of signing the Sale and Purchase Agreement. Particular properties projects which are approved by the government for the development of the whole lot of land and long-term development, of which the properties are transferred for the first time after the 5-year tax-free period, the tax-free period may be appropriately prolonged subject to the approval of the MOF and the SAT.

After the issuance of the Land Appreciation Tax Provisional Regulations and the Land Appreciation Tax Detailed Implementation Rules, due to the longer period for property development and transfer, many districts, while they were implementing the regulations and rules, did not force the property development enterprises to declare and pay the LAT. Therefore, the MOF, the SAT, Ministry of Construction and the MLR had separately and jointly issued several notices to restate the following: after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the property is located, and pay LAT in accordance with the amount as calculated by the tax authority and the time as required. For those who fail to acquire proof of payment or exemption from LAT from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the property title certificate.

The SAT issued the Notice on Improvement of the Administration of the Collection of Land Appreciation Tax (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to require local tax authorities to modify their management system of LAT collection and operational details, to formulate and implement a sound taxpaying declaration system for LAT, to modify the methods of prepayment for the pre-sale of properties. The notice also pointed out that either for the properties development contract which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy for LAT exemption for the properties that are transferred for the first time is expired, and such tax shall be levied again. This requirement is restated in the Notice on Strengthening of Administration of the Collection of Land

Appreciation Tax (關於加強土地增值稅管理工作的通知) and 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 (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 separately on August 2, 2004 and August 5, 2004 by the SAT. These two Notices also required that the system of tax declaration and tax sources registration in relation to the LAT should be further established and perfected.

On August 1, 2006, the local bureau of Shenzhen issued the Notice on Relevant Issues regarding Deductible Items for Land Appreciation Tax (關於土地增值稅扣除項目有關問題的通知), which mainly specifies the issues such as the deductible items for LAT and the tax payable for the sale of remaining units of properties.

On March 2, 2006, the MOF and the SAT issued the Notice on Several Matters on Land Appreciation Tax (關於土地增值稅若干問題的通知) to clarify the relevant issues regarding LAT as follows:

- Due to certain LAT exemption available to the sale of ordinary residential properties built by taxpayers and to the transfer of ordinary residential properties by individual owners, the notice sets out the standards for ordinary residential properties;
- The notice also provides that, where any developer develops ordinary residential properties as well as commercial properties, the land appreciation amount must be separately calculated and verified;
- As to the advance collection and settlement of LAT, the notice requires all local LAT collection departments to design their LAT prepayment rate in a scientific and reasonable manner, and to adjust it on a timely basis according to the appreciation of the property, the local market development and the specific property categories, such as ordinary residential properties, non-ordinary residential properties and commercial properties. The notice also require that LAT settlement be conducted upon the completion of a property project in a timely manner, with any overpayment refunded and underpayment made up;
- As to any LAT that has not been prepaid within the advance collection period, the overdue fines must be imposed and collected as of the day following the expiration of the prescribed advance collection period according to the relevant provisions of the LAT laws and regulations; and
- As to any property project that has been completed and in receipt of certificate of completion, and the saleable GFA of the project that has been transferred constitutes more than 85% of the total saleable GFA, the tax authorities may require the relevant taxpayer to complete the settlement of LAT on the transferred properties in proportion to the income generated from, and items of deduction relating to, the transferred properties, with the specific LAT settlement procedures to be provided by local tax authorities at provincial-level governments.

On December 28, 2006, the SAT issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知), which came into effect on February 1, 2007. Pursuant to the notice, a property developer must settle the LAT payment in full with the relevant tax authorities at the applicable LAT rates with respect to its property projects that have come to meet the LAT settlement criteria. For projects developed in stages, LAT must also be settled in stages. LAT must be settled if (i) the property project has been completed and fully sold; or (ii) the property developer has transferred the whole incomplete property project to another party; or (iii) the underlying land use rights with respect to a property project has been transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any one of the following criteria is met: (i) for completed property projects, the sold GFA represents more than 85% of total saleable GFA or, if such proportion is less than 85%, the remaining saleable GFA is subject to leasing arrangements or is used by the developer; (ii) the property project has not been completely sold for more than three years after obtaining the pre-sale permit or the certificate of completion; (iii) the developer is applying for cancellation of its tax registration without having settled the relevant LAT; and (iv) other situations stipulated by the local provincial tax authorities.

The notice also provides that, if a property developer has committed any of the following acts, the tax authorities are required to levy and collect LAT at a rate no lower than the LAT pre-payment rate of enterprises with a similar development scale and income level in the locality: (i) failure to maintain its accounting books required by the laws and regulations; (ii) destruction of its accounting books without authorization or failure to provide its tax information; (iii) its accounting books are not in proper order, with its supporting income and cost vouchers damaged and incomplete, so as to make it difficult to determine the sales revenue or the proper amount of deductible items; (iv) failure to complete the LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; or (v) the basis for tax calculation as submitted is obviously lower than supportable. Local tax authorities at the provincial level may formulate their implementation rules according to the notice and local circumstances.

On May 12, 2009, the SAT issued the Administrative Rules for the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on June 1, 2009. The rules reiterate the LAT settlement requirements, and further stipulate procedures for the examination and verification with respect to the LAT settlement to be followed by the tax authorities.

On May 19, 2010, the SAT promulgated the Notice on Issues Regarding Land Appreciation Tax Settlement (關於土地增值稅清算有關問題的通知), which provides further clarifications and guidelines on LAT settlement, revenue recognition, deductible expenses, timing of assessment and other related issues.

On May 25, 2010, the SAT issued the Notice on Strengthening the Collection Land Appreciation Tax (關於加強土地增值稅徵管工作的通知), which provides for a minimum LAT prepayment rate at 2% for provinces in eastern China region, 1.5% for provinces in the central and northeastern China regions, and 1% for provinces in the western China region. The notice also delegates to the local tax authorities to determine the applicable LAT prepayment rates based on the types of the properties in their respective regions.

On June 2, 2013, the SAT issued the Notice of the State Administration of Taxation on Further Improving the Collection of Land Value-added Taxes (關於進一步做好土地增值稅徵管工作的通知), which requires the local taxation authorities further strengthening administration on the collection of LAT, in particular, the administration on the settlement of LAT, strict examination of deductions and reduction of assessment and collection projects.

On November 10, 2016, the SAT issued the Announcement on the Several Provisions on the Collection of Land Appreciation Tax after the Replacement of Business Tax with VAT (關於營改增後土地增值稅若干徵管規定的公告), which clarified several issues concerning administration of collection of LAT after replacement of business tax with VAT, including confirmation of LAT taxable income, confirmation of LAT taxable income from any conduct deemed as the sale of a real estate property after the replacement of business tax with VAT, the deduction of taxes related to real estate transfer, calculation issues concerning the land VAT settlement, confirmation of invoices for building installation project expenses, and calculation of deductible items at the time of transfer of old houses.

Deed Tax

Pursuant to the Interim Regulations of the PRC 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 implemented on October 1, 1997 and recently amended on March 2, 2019, a transferee, whether an individual or otherwise, of the title to a piece of land or a building in China is obligated to pay deed tax. The rate of deed tax ranges from 3% to 5% to be determined by the governments at the provincial level and reported to the MOF and the SAT for the record.

According to the Reply Regarding the Clarification of Taxation Basis of Deed Tax in Relation to Transfer of State-Owned Land Use Rights (關於明確國有土地使用權出讓契稅計稅依據的批復) implemented by the SAT on October 27, 2009, for the transfer of state-owned land use rights, the taxation price of deed tax shall be the total economic interests paid by the transferee for obtaining the subject land use rights. For the state-owned land the use rights of which are obtained by way of tender, auction and invitation for bidding, the taxation basis of deed tax shall be the total price of the land deal without deducting the early-stage land development expenses of the early stage.

On September 29, 2010, the SAT, the Ministry of Finance and the MOHURD issued the Notice on Adjustments of the Deed Tax and Personal Income Tax Preferential Policies in Real Estate Transaction (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 the household (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 the household 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.

Urban Land Use Tax

Pursuant to the Provisional Regulations of the PRC Governing Land Use Tax in Urban Areas (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on September 27, 1988, implemented on November 1, 1988, and amended on January 8, 2011 and December 7, 2013 and March 2, 2019, the land use tax in respect of urban land is levied according to the location of relevant land. The annual tax on each sq.m. of urban land is between RMB0.2 and RMB10 and is to be collected according to the tax rate determined by the local tax authorities. These provisional regulations, as amended, became applicable to foreign-invested enterprises since January 1, 2007, with the such annual land use tax on each sq.m. of urban land between RMB0.6 and RMB30 to be collected according to the tax rate determined by the local tax authorities.

Property Tax

Under the Interim Regulations of the People's Republic of China on Real Property Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986, implemented on October 1, 1986 and amended on January 8, 2011, real property tax is levied at 1.2% calculated on the basis of the residual value of a property and at 12% calculated on the basis of the rental income.

Stamp Duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) promulgated by the State Council on August 6, 1988, implemented on October 1, 1988, and amended on January 8, 2011, for property transfer instruments, including those relating to property ownership transfers, a stamp duty is levied at 0.05% of the transfer price. For permits and certificates relating to rights, including property ownership certificates and land use rights certificates, a stamp duty is levied at RMB5 per item.

According to the Notice on Adjustments to Taxation Policies on the Real Estate Transaction (財政部、國家稅務總局關於調整房地產交易環節稅收政策的通知) promulgated by the MOF and the SAT on October 22, 2008 and implemented on November 1, 2008, the selling or purchase of real property by individuals is exempted from paying stamp duty.

Municipal Maintenance Tax

Under the PRC Interim Regulations 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 on February 8, 1985, and amended on January 8, 2011, taxpayers, whether individuals or otherwise, of product tax, value-added tax or business tax are required to pay municipal maintenance tax calculated on the basis of their product tax, value-added tax and business tax liabilities. The municipal maintenance tax is levied at 7% for a taxpayer domiciled in an urban area, 5% for a taxpayer domiciled in a county or a town, and 1% for a taxpayer domiciled in any other areas.

According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (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) issued by State Council on October 18, 2010, the municipal maintenance tax will be applicable to foreign-invested enterprises since December 1, 2010.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and amended on June 7, 1990, August 20, 2005 and January 8, 2011, respectively, 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 otherwise required to pay a rural education surcharge as provided in the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知). Under the Supplementary Notice Concerning Imposition of Education Surcharge (關於教育費附加徵收問題的補充通知) issued by the State Council on October 12, 1994, the education surcharge is currently not applicable to foreign-invested enterprises.

According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (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) issued by State Council on October 18, 2010, the education surcharge will be applicable to foreign-invested enterprises since December 1, 2010.

ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental protection for real estate developments in China include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the PRC 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 report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities grant approval for the commencement of construction of the real estate development. In addition, upon completion of the real estate development, the relevant environmental regulatory authorities will also inspect the property project to ensure compliance with the applicable environmental protection standards and regulations before the property project may be delivered to the purchasers.

LABOR PROTECTION AND SOCIAL INSURANCE

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

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

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (社會保險法) (No.35 of the President), which was promulgated on October 28, 2010 and amended on December 29, 2018 has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

FOREIGN EXCHANGE CONTROLS

Under the PRC Foreign Currency Administration Rules (中華人民共和國外匯管理條例) promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The foreign currency payments received under current account may be retained pursuant to the relevant regulations. Payments of current-account items may be remitted in foreign currencies without prior approval from the relevant SAFE authorities by complying with certain procedural requirements. The foreign currency receipts and remittances under current account should have a genuine and legitimate basis, and financial institutions processing such transactions must verify the authenticity of the relevant transaction documents and their consistency with the foreign currency receipts or remittances. However, to keep or convert any foreign currency payment under capital account requires pre-approval from the relevant SAFE authorities, unless specifically exempted under applicable regulations. If a regulatory pre-approval is not specifically required, payment of capital-account items may be remitted in foreign currency directly to financial institutions, provided that valid documentation is presented. Foreign exchange transactions involving foreign direct investment, foreign debts and outbound investment in securities and derivatives are subject to limitations and require approvals from the relevant SAFE authorities.

On October 21, 2005, SAFE issued Circular No. 75. According to Circular No. 75, a special purpose company refers to an offshore company established or indirect controlled by PRC residents for the special purpose of carrying out equity financing (including convertible debts financing) through their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company overseas, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. Circular No. 75 applies retroactively. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (i) the PRC residents contribute the equity interests or assets of a domestic company into the special purpose company or engage in the overseas equity financing of the special purpose company after such contributions; (ii) there is a material change in the capital of the special purpose company. Under Circular 75 and relevant rules and regulations, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators penalties under the relevant PRC foreign exchange administration regulations.

On July 4, 2014, Circular No. 75 was abolished and replaced by Circular No. 37. According to Circular No. 37, the scope for the special purpose company has been extended, referring to an offshore company established or indirectly controlled by PRC residents, whether a natural or legal person, for the purpose of investment and financing through the onshore or offshore assets and interests legally held by them. Prior to make capital contribution to the special purpose company, each PRC resident must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. It is also necessary to amend the registration with the relevant SAFE branch where there are changes in basic information of the registered special purpose company or other material changes such as increase or decrease in such individual PRC resident's capital, share transfer or swap, merger or split. Failure to comply with Circular No. 37 may subject the violators penalties under the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例).

The notice on Regulating Issues Relevant to Administration of Foreign Exchange in Real Estate Market (關於規範房地產市場外匯管理有關問題的通知) jointly issued by SAFE and the MOHURD on September 1, 2006, provided: (i) where a FIREE fails to pay registered capital in full or to acquire a land use rights certificate or to make its capital funding for a development project amounting to 35% of the total investment to the project, SAFE authorities will not handle its foreign debt registration or approve its settlement of foreign exchange funds; (ii) where a foreign institution or individual fails to pay the transfer price in a lump sum with its/his own fund, SAFE authorities will not process the registration of foreign exchange proceeds from transfer of equities; (iii) the domestic and foreign investors of a FIREE may not enter into an agreement or undertaking that promises a fixed return in any form to any party, or SAFE authorities will not process the foreign exchange registration or registration modification for the FIREE, and (iv) the funds in the foreign exchange account in the name of a foreign investor in a domestic bank shall not be used for the property development or operation of the FIREE.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Investment Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), or Circular 142. Pursuant to Circular 142, Renminbi amounts converted by a foreign-invested enterprise from its foreign exchange capital contribution may only be used for the activities within the approved business scope of such foreign-invested enterprise and may not be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations.

On May 12, 2014, SAFE issued the Circular 29. According to Circular 29, the Provisions of Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) (the “Cross-Border Guarantees Provisions”) and Practice Guidance of Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理操作指引) (the “Cross-Border Guarantees Guidance”) became effective on June 1, 2014, and 12 regulations and rules regarding the foreign guarantee regime in China were abolished at the same time. However, Measures for the Administration of Foreign Guarantees by Institutions within China (境內機構對外擔保管理辦法), which were promulgated by PBOC in 1996, will remain effective.

According to the Cross-Border Guarantees Provisions, cross-border guarantee covers the following three types of guarantee:

- Onshore guarantee for offshore debt (“內保外貸”) where the guarantor is incorporated within China while both the debtor and the creditor are incorporated outside China.
- Offshore guarantee for onshore debts (“外保內貸”) where the guarantor is incorporated outside China while both the debtor and the creditor are incorporated within China.
- Other forms of cross-border guarantees.

Subject to several limited situations requiring SAFE approval according to the Circular 29, the execution and performance of the guarantee contract for cross-border guarantee will not be subject to SAFE's prior approval. Instead, post-registration with SAFE will be the main administrative measure for the cross-border guarantee. In the case of onshore guarantee for offshore debt, the onshore guarantor shall register with SAFE within 15 working days upon execution of the guarantee contract, and shall register changes with SAFE within 15 working days upon certain amendments to the guarantee contract or to the key clauses in the underlying debt contract. In the case of offshore guarantee for onshore debt, the creditor must be an onshore financial institution and the debtor must be an onshore nonfinancial institution with guarantee target and form fulfilling legal requirements. There are also some restrictions on the use of the offshore loan backed up by onshore guarantee in the case of onshore guarantee for offshore debt, such as the debtor is not allowed to directly or indirectly transfer such offshore funds back to China by way of the arrangement of loan, equity investment or securities investment within China without SAFE's approval. Specific approval by SAFE is required if the debtor plans to use the offshore loan for any restricted purposes. After the guaranty obligation under the guarantee agreement has been performed by the offshore guarantor and before the onshore debtor has fully paid off the debt owed to the offshore guarantor, without SAFE's approval, the onshore debtor is not allowed to enter into a new agreement which is backed up by an offshore guarantee for such debtor's onshore debt; or, if the new offshore guarantee for such debtor's onshore debt has been entered into yet the funds have not been fully withdrawn by such an onshore debtor, such an onshore debtor shall be temporarily suspended the withdrawal of any funds under that loan agreement. Further, Circular 29 makes it clear that SAFE's approval, registration, filing or other administration requirements thereof shall not be a condition precedent for the cross-border guarantee contract to take effect.

Pursuant to the Cross-Border Guarantees Guidance, whoever fails to comply with the Provisions and other relevant provisions when engaging in cross-border guarantees will be punished by the foreign exchange authority under the Regulation of the People's Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例).

On March 30, 2016, the SAFE issued the Notice on the Reform of the Administration of Foreign Exchange Registered Capital Settlement for Foreign-Invested Enterprises (關於改革外商投資企業外匯資本金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 CNY funds converted from their foreign exchange registered capital. On June 9, 2016, SAFE issued the Notice to Reform and Regulate the Administration Policies of Foreign Exchange Capital Settlement (關於改革和規範資本專案結匯管理政策的通知) to further reform foreign exchange capital settlement nationwide.

INTELLECTUAL PROPERTY

According to the Law on Trademark (商標法) which was promulgated by the State Council on August 23, 1982 and amended on August 30, 2013, and the Implementation Regulations on the Trademark Law (商標法實施條例) which was promulgated on August 3, 2002, the registered trademarks include commodity trademarks, service trademarks, collective trademarks and certification trademarks. The Trademark Office under the SAIC is responsible for the nationwide registration and administration of trademarks. Trademarks are granted on a term of ten years. Twelve months prior to the expiration of the ten-year term, an applicant can renew the application and reapply for trademark protection.

Any of the following acts may be regarded as an infringement of the exclusive right to use a registered trademark: use of a trademark that is identical with a registered trademark of the same type of commodity as the trademark registrant's without the authorization of the trademark registrant; using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion; sale of a commodity infringing upon the exclusive right to use the registered trademark; counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; change of any trademark of a registrant without the registrant's consent, and selling goods bearing such replaced trademark on the market; providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; and otherwise infringing upon another person's exclusive right to use a registered trademark and cause damages. Trademark license agreements must be filed with the Trademark Office under the SAIC or one of its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

MANAGEMENT

Our board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of the board:

Name	Age	Existing Position in Company, Roles and Responsibilities
Wong Yeuk Hung (黃若虹)	55	Executive Director, Chairman
HUANG Ruoqing (黃若青)	50	Executive Director, president, a chairman of the nomination committee and a member of the remuneration committee; responsible for the daily management and operation of the Group
TANG Chengyong (唐承勇)	55	Executive Director and vice president; responsible for project planning and implementation of the Group
WANG Weifeng (王衛鋒)	45	Executive Director; responsible for daily management of the property holdings group
WONG Yau Kar, David BBS, JP (黃友嘉博士)	61	Independent non-executive Director and a member of audit committee and nomination committee; performing roles as a non-executive Director
CHAU On Ta Yuen (周安達源)	71	Independent non-executive Director and a member of audit committee, remuneration committee and nomination committee; performing roles as a non-executive Director
YIP Tai Him (葉棣謙)	48	Independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee; performing roles as a non-executive Director
CHOW Kwong Fai, Edward JP (周光暉)	66	Independent non-executive Director and the chairman of the audit committee; performing roles as a non-executive Director

Directors

Executive Directors

Mr. Wong Yeuk Hung (黃若虹), aged 55, is an executive Director and the chairman of the Board with effect from March 9, 2017. He was the founder of the Group in 1992. He was responsible for strategic planning and overall management of the group's business from 1992 to 2014. He currently serves as a director of certain subsidiaries of the Company. He currently serves as a member of the committee of the Thirteenth National People's Congress of the Chinese People's Political Consultative Conference, as a Vice Chairman of the Hong Kong Federation of Fujian Associations, and as a Vice Chairman of the Hong Kong Association for the Promotion of the Peaceful Reunification of China. Mr. Wong is currently pursuing a Master degree of Business Administration in the University of Science and Technology of China.

He is the elder brother of Mr. Huang Ruoqing and he is not related to any of the other directors or senior management of the Company. By virtue of the Securities and Futures Ordinance (the “SFO”), Mr. Wong is deemed to be interested in 1,387,258,000 shares of the Company (the “Shares”) held by Global Universe International Holdings Limited (“Global Universe”) as of December 31, 2018.

Mr. HUANG Ruoqing (黃若青), aged 50, is the executive Director and the president. Mr. Huang was appointed as a Director on July 14, 2008 and re-designated as the executive Director on January 14, 2014. Huang is the authorized representative of the Company and the chairman of the nomination committee of the Company (the “Nomination Committee”) and a member of the remuneration committee of the Company (the “Remuneration Committee”). Mr. Huang is responsible for the day-to-day management and operation of the Group, supervising the land acquisitions and overseeing project planning and execution of the Group. Mr. Huang is currently a director of Times International Development Company Limited (“Times International”) and many of the subsidiaries. From August 1990 until he joined us in May 1994, he worked as an architecture designer, assistant architect and project manager successively in Quanzhou Construction Design Institute (泉州市建築設計院). Mr. Huang has over 25 years of experience in the real estate industry in the PRC, and he has received various awards, making him a new leader in the real estate industry in the PRC. Mr. Huang received a bachelor’s degree in architecture from Huaqiao University (華僑大學) in the PRC in July 1990. Mr. Huang was appointed as a visiting professor at Jiangxi University of Finance and Economics (江西財經大學) in December 2015. Mr. Huang is the younger brother of Mr. Wong Yeuk Hung and he is not related to any of the director or senior management of the Company. By virtue of the Securities and Futures Ordinance (the “SFO”), Mr. Huang is deemed to be interested in 462,419,000 shares of the Company (the “Shares”) held by Times International as at 31 December 2017.

Mr. TANG Chengyong (唐承勇), aged 55, is an executive Director and the vice president. Mr. Tang was appointed as a Director on October 18, 2013 and re-designated as an executive Director on January 14, 2014. He is primarily responsible for the management of operation team of the Group including sales, construction and design. Mr. Tang has over 23 years of experience in the real estate industry in the PRC. Mr. Tang joined us as the general manager of Yantai Redco Development in August 2001, where he was responsible for the daily operation of this company. Mr. Tang was also successively appointed as the general manager of Jiangxi Man Wo, Jiangxi Redco Property Development, Redco Development (Jiangxi), Shandong Redco and vice president of Redco (China) from May 2006 to February 2012, where he was responsible for daily operation of these companies and overseeing various projects. He is also currently a director of many of our subsidiaries. Prior to joining the Group, Mr. Tang was employed by Jiangsu Province Supply and Marketing Cooperative Real Estate Development Company (江蘇省供銷社房地產開發公司), a company primarily engaged in property development from March 1993 to August 2001 and his last position was deputy general manager and deputy director of department of economic development. Mr. Tang received a bachelor’s degree in engineering from Shenyang Institute of Architectural Engineering (瀋陽建築工程學院) in the PRC in July 1986.

Mr. WANG Weifeng (王衛鋒), aged 45, is an executive Director. Mr. Wang joined the Group as a president of the property holdings group in March 2019 and was appointed as an executive Director on April 15, 2019, primarily responsible for the day-to-day management of the property holdings group. Mr. Wang has substantive experience in relation to property development. Prior to joining the Group, Mr. Wang was the deputy executive officer and executive officer of Excellence Real Estate Group Limited* (卓越置業集團) from March 2012 to March 2019. From April 1997 to March 2012, he was appointed to various roles in China Vanke Co., Ltd. (SZ.000002) (the “**Vanke Group**”) including as the general manager of engineering management department from February 2010 to March 2012. Mr. Wang received his bachelor degree in engineering from the Northwest College of Engineering* (西北建築工程學院, now known as Chang An University* (長安大學)). He also obtained an executive master degree in business administration (EMBA) from China Europe International Business School.

Independent Non-executive Directors

Dr. WONG Yau Kar, David BBS, JP (黃友嘉博士), aged 61, has been appointed as an independent non-executive Director on January 14, 2014. Wong is a member of each of the audit committee of the Company (the “Audit Committee”) and the Nomination Committee. Dr. Wong received a Ph.D degree in Economics from the University of Chicago in 1987. Dr. Wong has extensive experience in manufacturing, direct investment and international trade. Dr. Wong is active in public service. He is a Hong Kong deputy of the 13th National People’s Congress of the People’s Republic of China (第十三屆全國人民代表大會). He is also Chairman of the Land and Development Advisory Committee, Mandatory Provident Fund Schemes Authority and Protection of Wages on Insolvency Fund Board. Dr. Wong was appointed as a Justice of Peace (JP) in 2010 and was awarded a Gold Bauhinia Star (GBS) and Bronze Bauhinia Star (BBS) in 2017 and 2012 for his valuable contribution to the society.

Dr. Wong is currently an independent non-executive director of Huayi Tencent Entertainment Company Limited (Stock code: 419), Shenzhen Investment Limited (Stock code: 604) and Sinopec Kantons Holdings Limited (Stock code: 934) and Guangnan (Holdings) Limited (Stock code: 1203). The shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Dr. Wong was a non-executive director of Yunfeng Financial Group Limited (Stock Code: 376) during the period from December 2012 to November 3, 2017 and Concord New Energy Group Limited (Stock code: 182) during the period from December 2016 to June 2018 to 8 March 2015.

Mr. CHAU On Ta Yuen (周安達源), aged 71, has been appointed as an independent non-executive Director on January 14, 2014. Chau is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Chau received a bachelor’s degree in Chinese language and literature from Xiamen University (廈門大學) in August 1968 in the PRC. Mr. Chau is currently a member of the Thirteenth National Committee of the Chinese People’s Political Consultative Conference, deputy officer of the Social and Legal Affairs Committee of the Chinese People’s Political Consultative Conference (全國政協社會和法制委員會) and the Eleventh Honorary consultant of the Hong Kong Federation of Fujian Association Ltd. Mr. Chau was also awarded the Silver Bauhinia Star by the government of Hong Kong Special Administrative Region in July 2016. Mr. Chau is currently a non-executive director and honorary chairman of China Ocean Shipbuilding Industry Group Limited (Stock code: 651), an executive director of ELL Environmental Holdings Limited (Stock code: 1395), and independent non-executive director of Good Fellow Resources Holdings Limited (Stock code: 109), Come Sure Group (Holdings) Limited (Stock code: 794) and Hang Pin Living Technology Company Limited (Stock code: 1682). The shares of which are listed on the Main Board of the Stock Exchange.

Mr. YIP Tai Him (葉棣謙), aged 48, has been appointed as an independent non-executive Director on January 14, 2014. Mr. Yip is the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Yip received a bachelor of arts (hons) degree in accountancy from the City Polytechnic of Hong Kong, now known as the City University of Hong Kong in September 1993 in Hong Kong. He has been a practising accountant in Hong Kong since 1999. Mr. Yip was admitted as a member of the Association of Chartered Certified Accountants in the United Kingdom and the Institute of Chartered Accountants in England and Wales in September 1996 and January 2006, respectively. He has approximately 25 years of experience in accounting, auditing and financial management. Mr. Yip is currently an independent non-executive director of the following companies, the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Yip is currently independent non-executive independent director of China Communication Telecom Service Company Limited (stock code: 8206), GCL-Poly Energy Holdings Limited (stock code: 3800), Bisu Technology Group International Ltd (Stock code: 1372) and Sino Golf Holdings Ltd. (Stock code: 361). The shares of which are listed on the Main Board/GEM board of the Stock Exchange. Mr. Yip was an independent non-executive director of the following companies, the shares of which are listed on the Main Board of the Stock Exchange:

Companies	Duration
China Star Cultural Media Group Limited (Stock Code: 8172)	December 2008 to April 2015
Vinco Financial Group Limited	May 2008 to August 2016
New Wisdom Holding Co. Ltd (Stock Code: 8213)	November 2016 to February 2018
Sino Golf Holdings Ltd. (Stock code: 361)	August 2015 to November 2018

Mr. CHOW Kwong Fai, Edward JP (周光暉), aged 66, has been appointed as an independent non-executive Director on January 14, 2014. Mr. Chow is the chairman of the Audit Committee. Mr. Chow received a bachelor's degree in business studies from Middlesex University (formerly known as Middlesex Polytechnic) in the United Kingdom in 1975. Mr. Chow is a fellow and council member of The Institute of Chartered Accountants in England and Wales and a past president of the Hong Kong Institute of Certified Public Accountants (HKICPA). Before elected president, he chaired the HKICPA's Corporate Governance Committee and Professional Accountants in Business (PAIB) Committee. He was a Deputy Chairman of The Hong Kong Institute of Directors from 2001 to 2008 and the Chairman of the PAIB Committee of the International Federation of Accountants (IFAC) from 2006 to 2008. Mr. Chow is currently a core member of the OECD/World Bank Asian Corporate Governance Roundtable, the Chairman of China Infrastructure Group, a non-executive director of the Urban Renewal Authority, a council and court member of the University of Hong Kong, an Honorary Advisor of the Business and Professionals Federation of Hong Kong. He was also a member of the Eleventh Zhejiang Province Committee of the Chinese People's Political Consultative Conference, a member of the Election Committee of the Hong Kong Special Administrative Region and an expert advisor of the Accounting Standards Committee of the Ministry of Finance, the People's Republic of China.

Mr. Chow is currently an independent non-executive director of Melco International Development Limited (Stock Code: 200) and China Aircraft Leasing Group Holding Limited (Stock Code: 1848).

Prior to entering the commercial sector, Mr. Chow spent 11 years working for two major accounting firms, Deloitte Haskins & Sells and Price Waterhouse (as they were then known), respectively in London and Hong Kong. Mr. Chow was appointed as a Justice of Peace by the Chief Executive of the Hong Kong Special Administrative Region in July 2008. Mr. Chow was also an awardee of the Directors of the Year Award 2010 in the non-executive director of listed companies (SEHK — Hang Seng Index Constituents) category, awarded by the Hong Kong Institute of Directors.

Save as disclosed above, none of the Directors has been involved in any of the events described under Rule 13.51(2) (h) to (v) of the Listing Rules for the three years ended December 31, 2018.

Save as disclosed above, none of the Directors have held any directorship in any public company listed in Hong Kong or overseas in the past three years.

Senior Management

The table below sets forth certain information concerning our other senior management members:

<u>Name</u>	<u>Age</u>	<u>Existing Position in Company, Roles and Responsibilities</u>
Wang Shuyu (王曙煜女士)	46	Vice President of the Group, responsible for the operation, of the President office of the Group
LIANG Wanchan (梁婉嬋)	41	Vice President of the Group, responsible for financial, financing and internal control compliance of the Group
JIN Rongshan (靳榮山)	46	Vice President of the Group, responsible for the engineering operations, marketing, design, purchasing and cost control of the Group
CHEN Pengfei (陳鵬飛)	38	General Manager of the Cost Management Center of the Group, responsible for the Group's cost management and tender procurement management
AI Yongtian (艾詠天)	46	Assistant President of the Group, responsible for investment
WANG Zhibin (汪智斌)	32	General Manager of the financing management center of the Group and Assistant to the President, responsible for financing management of the Group
LI Huiyong (李輝勇)	37	General manager of the Investment Development Center
PAN Yuxia (潘玉霞女士)	51	Deputy general manager of the Redco Nanchang Company* (力高南昌公司)

Ms. Wang Shuyu (王曙煜女士), aged 46, joined the Group in November 2016. She is the Vice President of the Group where she is responsible for the operation, of president office of the Group. Ms. Wang has over 23 years of experience in real estate marketing and corporate operations management. Prior to joining the Group, she worked as the Vice President in charge of brand marketing in China Aoyuan Property Group Limited, a company listed on the Stock Exchange (stock code: 3883) for the period from 2010 to 2015. Previously, she has held various senior positions in China Overseas (stock code: 688), Wanda Group and other different reputable real estate companies, and has accumulated substantial experience in property development and management. Ms. Wang was awarded a diploma in Laws by Hunan University in China in 2004.

Ms. LIANG Wanchan (梁婉嬋), aged 41, is the Vice President of the Group which oversees of the Finance Management Center and the Financing Management Center of the Group. Ms. Liang is responsible for the financial, financing and internal control compliance of the Group. She has over 14 years of experience in corporate finance and internal auditing. Ms. Liang joined the Group as the chief financial officer of Redco (China) Real Estate Co., Ltd. in November 2010 and she has been responsible for the corporate finance and accounting of the Group. Prior to joining the Group, she had served as assistant director of finance and investment management department of Hopson Development Holdings Limited (合生創展集團有限公司), a company listed on the Stock Exchange (stock code: 754), from September 2002 to October 2010, during which she was responsible for financial management of the group. Ms. Liang received a bachelor's degree in economics from the Renmin University of China in the PRC in July 2000.

Mr. JIN Rongshan (靳榮山先生), aged 46, joined the Group in August 2018 and is the Vice President of the Group, where he is responsible for the Group's engineering operations, marketing, design, purchasing and cost control. Mr. Jin has over 27 years of experience in real estate operations and engineering management. Prior to joining the Group, he worked for the Country Garden Group, a company listed on the Stock Exchange (stock code: 02007.HK) from February 2012 to August 2018 as Regional Vice President in Guizhou in charge of mega operations. He was previously in charge of the engineering management in several well-known real estate companies such as Agile (stock code: 03383.HK). Mr. Jin obtained a Diploma in Engineering Management from Harbin Institute of Technology (哈爾濱工業大學) in 2009.

Mr. Chen Pengfei (陳鵬飛), aged 38, joined the Group in April 2016. He is the General Manager of the Cost Management Center of the Group where he is responsible for the Group's cost management and tender procurement management. He also assists in managing some affairs in Operations Management Center. Mr. Chen has accumulated over 14 years of experience in cost management and tender procurement management area. Prior to joining the Group, he served as the General Manager of Cost Management Center of Shenzhen Yitian Group* (深圳市益田集團) where he was responsible for the cost management and tender procurement of the whole group, and has accumulated extensive management experience in cost management as well as tender procurement. Mr. Chen received a Bachelor's degree in Management from Sichuan University in 2003.

Mr. AI Yongtian (艾詠天先生), aged 46, joined the Group in February 2019 and is the Assistant President of the Group, where he is responsible for investment. Prior to joining the Group, he worked as senior executive in Shanghai Forte Land Group, Yango Group, Zhongliang Holdings Group and several other well-known large-scale real estate companies in PRC. He has extensive industry experience in real estate management, risk control and investment, particularly specialized in mergers, acquisitions and business restructuring. Mr. Ai obtained a bachelor's degree in law from Peking University (北京大學) in 1997.

Mr. WANG Zhibin (汪智斌先生), aged 32, is the General Manager of the financing management center of the Group and Assistant to the President, where he is responsible for financing management of the Group. Mr. Wang has over 10 years of experience in corporate financing and auditing. Mr. Wang joined the Group in September 2017. Prior to joining the Group, he was in charge of the corporate real estate funding and capital management of several real estate developers listed on the Stock Exchange, and has extensive industrial management experience in real estate financing and capital management. Mr. Wang obtained a master's degree in business administration and bachelor's degree in applied mathematics from Hong Kong University of Science and Technology and Sun Yat-sen University (中山大學) in 2017 and 2008 respectively.

Mr. LI Huiyong (李輝勇先生), aged 37, joined the Group in August 2013 and is the general manager of the Investment Development Center. Mr. Li has over 10 years of experience in real estate investment development. Prior to joining the Group, he worked for Logan Property, a Shenzhen company listed on the Stock Exchange (stock code: 03380.HK), from October 2009 to August 2013, acted as the general manager of investment development center and was in charge of projects development in Chengdu, Chongqing and other southwestern regions as well as Zhuhai and Zhongshan. Mr. Li obtained a bachelor's degree in engineering management from Harbin University of Commerce (哈爾濱商業大學) in 2007 and a master's degree in real estate investment in technical economics and management from Dongbei University of Finance and Economics (東北財經大學) in 2009.

Ms. PAN Yuxia (潘玉霞女士), aged 51, joined the Group in 2006. She is the deputy general manager of the Redco Nanchang Company* (力高南昌公司). Ms. Pan has extensive experience in business operation management and investment development. She is currently responsible for the operation management affairs of the hotel business section of the Group. She also assists in the Group's land development expansion affairs. Prior to joining the Group, Ms. Pan served as the department manager of nonferrous metal department of Jiangxi Provincial Metals and Minerals Import and Export Corporation from September 1989 to December 2005, where she is responsible for import and export business of nonferrous metals. Ms. Pan received a Bachelor's Degree in Economics from Jiangxi University of Finance and Economics in PRC in 1989 and a Master's Degree in Business Administration from Hebei University of Technology in PRC in January 2007.

Company Secretary

CHAN Hing Chau (陳慶疇), aged 39, has been the company secretary since October 28, 2013. Mr. Chan is the authorised representative of the Company. Mr. Chan joined the Group as the general manager of finance department of Redco Holdings (Hong Kong) Co., Limited in March 2013. Prior to joining the Group, Mr. Chan was with PricewaterhouseCoopers from December 2004 to March 2013, during which he was promoted to a manager of assurance department. Mr. Chan obtained his bachelor's degree of arts in accountancy from The Hong Kong Polytechnic University in November 2004 in Hong Kong. He was also qualified as a member of Hong Kong Institute of Certified Public Accountants in July 2008.

Board Committees

Audit Committee

We established an audit committee on January 14, 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee consists of four independent non-executive Directors, Chow Kwong Fai, Edward JP (being the chairman of the audit committee who has a professional qualification in accountancy), Yip Tai Him, Wong Yau Kar, David BBS, JP and Chau On Ta Yuen. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the policies and to perform other duties and responsibilities as assigned by our Board. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters.

Remuneration Committee

We established a remuneration committee on January 14, 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, being Yip Tai Him, Chau On Ta Yuen and Huang Ruoqing, two of whom are independent non-executive Directors. The remuneration committee is chaired by Yip Tai Him. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding the policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the share option scheme.

Nomination Committee

We established a nomination committee on January 14, 2014 with written terms of reference. The nomination committee consists of three members, being Huang Ruoqing, Wong Yau Kar, David BBS, JP and Chau On Ta Yuen. Two of the members are the independent non-executive Directors. The nomination committee is chaired by Huang Ruoqing. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

PRINCIPAL SHAREHOLDERS

As of December 31, 2018, substantial shareholders' interests or short position in the shares and underlying shares of the Company, being interests of 5% or more, as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of Interest in Company
Global Universe ⁽²⁾	Beneficial Owner	1,387,258,000 (L)	39.06%
Times International ⁽³⁾	Beneficial Owner	944,838,000 (L)	26.60%
Power Ray ⁽⁴⁾	Beneficial Owner	351,609,322 (L)	9.90%
Mr. NG Leung Ho ⁽⁴⁾	Interest in controlled corporation	351,609,322 (L)	9.90%

Note:

- (1) The letter "L" denotes the person's long position in the shares
- (2) As of the date of this offering memorandum, the entire share capital of Global Universe, a company incorporated in the British Virgin Islands (the "BVI") with limited liability, was held by Mr. Wong Yeuk Hung ("Mr. Wong"). By virtue of the SFO, Mr. Wong was deemed to be interested in the Shares held by Global Universe.
- (3) The entire share capital of Times International, a company incorporated in the BVI with limited liability, was held by Mr. Huang. By virtue of the SFO, Mr. Huang was deemed to be interested in the 944,838,000 Shares held by Times International. Details of which are set out in the section headed "Directors and Chief Executive's interests and short positions in shares, underlying shares, and debentures" above.
- (4) To the best knowledge of the Directors, the entire share capital of Power Ray Investment Development Limited ("Power Ray"), a company incorporated in the BVI with limited liability, was wholly owned by Mr. NG Leung Ho. By virtue of the SFO, Mr. NG Leung Ho is deemed to be interested in the Shares held by Power Ray.

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 the related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of the related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

The Group is joint controlled by Mr. Wong and Mr. Huang Ruoqing, which owns 39.06% and 26.60% of the Company’s shares, respectively.

The amounts due from/(to) related parties, joint venture, non-controlling interests and directors and shareholders are unsecured, interest-free, repayable on demand. The fair values approximate their carrying values and denominated in RMB or HKD.

The table below sets forth the major transactions with related parties for the years indicated:

	For the Year Ended December 31,			
	2016	2017	2018	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(USD)</i>
	<i>(Restated)</i>			<i>(Unaudited)</i>
		<i>(in thousands)</i>		
Net advance to joint ventures	54,322	—	—	—
Purchase of property management service	3,392	31,695	25,833	3,757
Providing management consultancy service to joint ventures	—	28,125	—	—
Providing management consultancy service to associates	—	136	986	143

In addition to the transactions set out in the table above, in 2016, Mr. Wong provided an undertaking to the subscriber of a share subscription arrangement of the Company.

The table below sets forth the compensation paid or payable to our key management for employee services:

	For the Year Ended December 31,			
	2016	2017	2018	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(USD)</i>
	<i>(Restated)</i>			<i>(Unaudited)</i>
		<i>(in thousands)</i>		
Salaries, bonus and other benefits	6,217	7,642	19,916	2,897
Pension costs — defined contribution plan. .	<u>241</u>	<u>225</u>	<u>476</u>	<u>69</u>
	<u>6,458</u>	<u>7,867</u>	<u>20,392</u>	<u>2,966</u>

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance its working capital requirements, we have entered into loan agreements with various financial institutions. As of December 31, 2018, our total outstanding external borrowings (including bank and other borrowings and the issuance of the notes) amounted to RMB11,059.7 million (US\$1,608.6 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness. Subsequent to December 31, 2018, we issued the January 2019 Notes and entered into the 2019 HSB Syndicated Facility. Since December 31, 2018, we have also entered into additional financial arrangements in the ordinary course of business to finance our property development and for general corporate purposes.

PRC BANK AND OTHER LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including but not limited to China Minsheng Bank, Bank of East Asia, Bank of Communications, Guangdong Huaxing Bank and China Bohai Bank. These PRC bank and other borrowings include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from four months to five years. As of December 31, 2018, the aggregate outstanding amount under these PRC bank and other borrowings totaled approximately RMB4,948.4 million (US\$719.7 million). Our PRC bank and other borrowings are typically secured by land use rights, properties under development for sale, an investment property and bank deposits as well as guaranteed by the Company and/or certain of our PRC subsidiaries.

Interest

The principal amounts outstanding under these PRC bank and other loans generally bear interest at floating rates calculated by reference to the relevant banks and financial institutions' benchmark interest rate *per annum*. Floating interest rates are generally subject to review by the banks and financial institutions annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2018, the weighted average interest rate on the aggregate outstanding amount of these PRC bank and other loans was 7.1% *per annum*.

Covenants

Under these PRC bank loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay the loans;
- grant guarantees to any third parties that may adversely affect their ability to repay the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers, spin-off and acquisitions and reorganizations or change their status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts that may adversely affect their ability to repay the loans;

- prepay the loans;
- transfer part or all of their liabilities under the loans to a third party;
- reduce their registered capital; and
- remit dividends to the shareholders during the term of the loans.

Events of Default

These PRC bank contain certain customary events of default, including insolvency, material adverse change in the collateral and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

We and certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks and financial institutions in connection with some of these PRC bank and other loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these PRC bank and other loans. Further, as of December 31, 2018, RMB4,948.4 million (US\$719.7 million) of these PRC and other bank loans were secured by land use rights and/or other assets and properties of the subsidiary borrowers and/or its other PRC subsidiaries, including equity interests in its PRC subsidiaries.

Dividend Restriction

A minority of our PRC subsidiaries have provided guarantees of equity pledge for loans to which certain other PRC subsidiaries within the Group are a party. Pursuant to the relevant pledge agreements, dividends deriving from the pledged equity during the guarantee period are also pledged properties, and, for the purpose of repaying the loans, portions of those dividends would be withheld by the pledgee or deposited into the supervised account.

OFFSHORE FINANCINGS

Intercreditor Agreement

In order to secure the obligations under the 2014 Notes, the Company and the subsidiary guarantors under the indenture entered on August 1, 2014 (the “2014 Indenture”) among the Company, Citicorp International Limited as trustee for the 2014 Notes and the subsidiary guarantors named therein (the “2014 Subsidiary Guarantors”) pledged the capital stock of all such 2014 Subsidiary Guarantors for the benefit of the holders of the 2014 Notes (the “Shared Collateral”). The Shared Collateral may be released or reduced in the event of certain asset sales and certain other circumstances.

On March 20, 2015, the Company, the subsidiary guarantor pledgors from time to time listed in Schedule I thereto, the Collateral Agent, the trustee for the 2014 Notes for the benefit of holders of the 2014 Notes and the facility agent for the 2015 BOC Bank Facility entered into an intercreditor agreement (as amended from time to time, the “Intercreditor Agreement”). The Intercreditor Agreement provides that the security interests created by the Shared Collateral will be shared on a *pari passu* basis among (i) the holders of the 2014 Notes, (ii) the lender under the 2015 BOC Bank

Facility and (iii) any holder of permitted *pari passu* secured indebtedness or their representatives who become parties to the Intercreditor Agreement. The 2014 Notes were fully redeemed in August 9, 2017, and as a result, the trustee for the 2014 Notes has been removed as a secured party under the Intercreditor Agreement.

We or certain of our subsidiaries have entered into loan agreements with various offshore banks. As of December 31, 2018, the aggregate outstanding amount under the offshore bank loans was RMB2,591.3 million (US\$376.9 million).

2017 HSB Syndicated Facility

On July 20, 2017, the Company, as borrower, signed a facility letter with BOC (HK), China Minsheng Banking Corp. Ltd. Hong Kong Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Chiyu Banking Corporation Limited, Hang Seng Bank Limited, Nanyang Commercial Bank, Limited, Nanyang Commercial Bank (China) Limited Shenzhen Branch, the Bank of East Asia, Limited, and Wing Lung Bank, Limited, as lenders, in connection with a term loan facility of HK\$1,584.7 million (US\$202.4 million), which was subsequently increased to HK\$1,624.0 million (US\$207.0 million). Such facility was obtained and drawn down by the Group. As of the date of this offering memorandum, the entire amount of such facility is still outstanding.

Interest

Interest on the 2017 HSB Syndicated Facility is computed at 4% *per annum* over LIBOR, payable at the end of each interest period.

Maturity and Prepayment

The 2017 HSB Syndicated Facility will be due three years from the date of drawdown. We may prepay the 2017 HSB Syndicated Facility with not less than seven days' prior written notice.

Guarantee and Security

The 2017 HSB Syndicated Facility is secured by a subordination deed entered into by the borrower and corporate guarantees provided by certain of our subsidiaries and an associated company for unlimited amount.

Collateral

The obligations under the 2017 HSB Syndicated Facility are secured by the Shared Collateral.

2019 HSB Syndicated Facility

On March 27, 2019, the Company, as borrower, signed a facility letter with Hang Seng Bank Limited, Bank of China (Hong Kong) Limited, The Bank of East Asia, Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, as lenders, in connection with a term loan facility of US\$175,000,000. Such facility was obtained and drawn down by the Group. As of the date of this offering memorandum, the entire amount of such facility remains outstanding.

Interest

Interest on the 2019 HSB Syndicated Facility is computed 5.10% per annum plus LIBOR, payable at the end of each interest period.

Maturity

The 2019 HSB Syndicated Facility will mature on March 27, 2022. We may prepay the 2019 HSB Syndicated Facility with not less than seven days' prior written notice.

Guarantee and Security

The 2019 HSB Syndicated Facility is guaranteed by certain of our subsidiaries.

Collateral

The obligations under the 2019 HSB Syndicated Facility are secured by the Share Collateral. See “— 2017 HSB Syndicated Facility — Collateral.”

August 1 2018 Notes

On August 1, 2018, we entered into the August 1 2018 Indenture pursuant to which we issued an aggregate principal amount of US\$15,800,000 8.0% senior notes due 2019. As of the date of this offering memorandum, the entire principal amount of the August 1 2018 Notes remains outstanding.

Guarantee

The obligations pursuant to the August 1 2018 Notes are guaranteed by certain of our existing subsidiaries (the “August 1 2018 Subsidiary Guarantors”) other than those organized under the laws of the PRC. We refer to these guarantees as the August 1 2018 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a August 1 2018 Subsidiary Guarantee required to be provided by one of its subsidiaries may be replaced by a limited-recourse guarantee (a “August 1 2018 JV Subsidiary Guarantee”). We refer to the subsidiaries providing August 1 2018 JV Subsidiary Guarantees as August 1 2018 JV Subsidiary Guarantors. Each of the August 1 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 1 2018 Notes.

Collateral

The Trustee for the August 1 2018 Notes acceded to the Intercreditor Agreement in August 1, 2018, which provided that the obligations under the August 1 2018 Notes are secured by the Shared Collateral.

Interest

The August 1 2018 Notes bear an interest rate of 8.0% per annum, payable in arrears on February 1, 2019 and July 31, 2019.

Covenants

Subject to certain conditions and exceptions, the August 1 2018 Indenture and each of the related August 1 2018 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 shares;
- 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;
- engaging in any business other than permitted business;
- 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 August 1 2018 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the August 1 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 1 2018 Indenture or the holders of at least 25% of the outstanding August 1 2018 Notes may declare the principal of the August 1 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 1 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 1 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 date of the August 1 2018 Notes is July 31, 2019. At any time and from time to time prior to July 31, 2019, 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 1 2018 Notes at a redemption price equal to 108% of the principal amount of the August 1 2018 Notes, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the August 1 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. Additionally, if we or a August 1 2018 Subsidiary Guarantor under the August 1 2018 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, it may redeem the August 1 2018 Notes at a redemption price equal to 100% of the principal amount of the August 1 2018 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

August 29 2018 Notes

On August 29, 2018, we entered into the Indenture pursuant to which we issued an aggregate principal amount of US\$200,000,000 11.0% senior notes due 2020 on August 29, 2018, and an additional aggregate principal amount of US\$110,400,000 on January 4, 2019. As of the date of this offering memorandum, the entire principal amount of the August 29 2018 Notes remains outstanding.

Guarantee

The obligations pursuant to the August 29 2018 Notes are guaranteed by certain of our existing subsidiaries (the "August 29 2018 Subsidiary Guarantors") other than those organized under the laws of the PRC. We refer to these guarantees as the August 29 2018 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a August 29 2018 Subsidiary Guarantee required to be provided by one of its subsidiaries may be replaced by a limited-recourse guarantee (a "August 29 2018 JV Subsidiary Guarantee"). We refer to the subsidiaries providing August 29 2018 JV Subsidiary Guarantees as August 29 2018 JV Subsidiary Guarantors. Each of the August 29 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 29 2018 Notes.

Collateral

The Trustee for the August 29 2018 Notes acceded to the Intercreditor Agreement in August 29 2018, which provided that the obligations under the August 29 2018 Notes are secured by the Shared Collateral.

Interest

The August 29 2018 Notes bear an interest rate of 11.0% per annum, payable in semi-annually in arrears on February 28 (or, in the case of 2020, February 29) and August 29 of each year, commencing February 29, 2019.

Covenants

Subject to certain conditions and exceptions, the August 29 2018 Indenture and each of the related August 29 2018 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 shares;
- 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;
- engaging in any business other than permitted business;
- 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 August 29 2018 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the August 29 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 29 2018 Indenture or the holders of at least 25% of the outstanding August 29 2018 Notes may declare the principal of the August 29 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 29 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, we will make an offer to repurchase all outstanding August 29 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 date of the August 29 2018 Notes is August 29, 2020. At any time prior to August 29, 2020, we may at our option redeem the August 29 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the August 29 2018 Notes plus applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to August 29, 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 29 2018 Notes at a redemption price equal to 110% of the principal amount of the August 29 2018 Notes, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the August 29 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.

January 2019 Notes

On January 22, 2019, we entered into the January 2019 Indenture pursuant to which we issued an aggregate principal amount of US\$250,000,000 13.5% senior notes due 2020. As of the date of this offering memorandum, the entire principal amount of the January 2019 Notes remains outstanding.

Guarantee

The obligations pursuant to the January 2019 Notes are guaranteed by certain of our existing subsidiaries (the "January 2019 Subsidiary Guarantors") other than those organized under the laws of the PRC. We refer to these guarantees as the January 2019 Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a January 2019 Subsidiary Guarantee required to be provided by one of its subsidiaries may be replaced by a limited-recourse guarantee (a "January 2019 JV Subsidiary Guarantee"). We refer to the subsidiaries providing January 2019 JV Subsidiary Guarantees as January 2019 JV Subsidiary Guarantors. Each of the January 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 January 2019 Notes.

Collateral

The Trustee for the January 2019 Notes acceded to the Intercreditor Agreement in January 2019, which provided that the obligations under the January 2019 Notes are secured by the Shared Collateral.

Interest

The January 2019 Notes bear an interest rate of 13.5% per annum, payable in arrears on July 22, 2019 and January 21, 2020.

Covenants

Subject to certain conditions and exceptions, the January 2019 Indenture and each of the related January 2019 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 shares;
- 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;
- engaging in any business other than permitted business;
- 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 2019 Indenture contains certain customary events of default, including default in the payment of principal or of any premium on the January 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 January 2019 Indenture or the holders of at least 25% of the outstanding January 2019 Notes may declare the principal of the January 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 January 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 January 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 date of the January 2019 Notes is January 21, 2020. At any time and from time to time following the occurrence of the NDRC Registration, we may redeem the January 2019 Notes, in whole or in part, at a redemption price equal to 101% of the principal amount of the January 2019 Notes, together with accrued and unpaid interest, if any, to (but not including), the redemption date. We will give not less than 15 days' nor more than 30 days' notice of any redemption. At any time and from time to time prior to January 21, 2020, we may redeem up to 35% of the aggregate principal amount of the January 2019 Notes at a redemption price equal to 113.5% of the principal amount of the January 2019 Notes, plus accrued and unpaid interest, if any, to the redemption date, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions. Additionally, if we or a January 2019 Subsidiary Guarantor under the January 2019 Indenture becomes obligated to pay certain additional amounts as a result of certain changes in, or amendment to, specified tax law, it may redeem the January 2019 Notes at a redemption price equal to 100% of the principal amount of the January 2019 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Redco Properties Group Limited (力高地產集團有限公司), 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 below) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of May 2, 2019, among the Company, the Subsidiary Guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of the material provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement and the Security Documents. This summary does not purport to be complete, and is subject to, 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 (if any), the Intercreditor Agreement and the Security Documents. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the Existing *Pari Passu* Secured Indebtedness and 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 the JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the other secured obligations of the Company (if any, other than Permitted *Pari Passu* Secured Indebtedness), the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor (other than the Collateral); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under the caption “— Security” and will:

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

The Notes will mature on May 2, 2021, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 9.875% 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 May 2 and November 2 of each year (each an “Interest Payment Date”), commencing November 2, 2019. Interest on the Notes will be paid to Holders of record at the close of business on April 17 or October 18 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

Except as described under “Optional Redemption,” “Redemption for Taxation Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying Agent currently located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office; *provided* that, if the Notes are in definitive form and the Company is acting as its own paying agent, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Registrar 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 the JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company's Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC (the "PRC Non-Guarantor Subsidiaries") and (ii) certain other Restricted Subsidiaries organized outside the PRC as of the Original Issue Date (the "Initial Other Non-Guarantor Subsidiaries.")

The Subsidiary Guarantors are holding companies that do not have significant operations. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. Other than the initial Subsidiary Guarantors, none of the initial Other Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date. Although the Indenture contains limitations on the amount of additional Indebtedness that 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, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

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 or acquired 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 Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, concurrently with or after the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than (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;

- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock or purchase of Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor or on a basis more favorable to the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than Exempted Subsidiaries and Listed Subsidiaries), and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) 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
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of December 31, 2018, the Company and its consolidated subsidiaries had total bank and other borrowings of approximately RMB7,539.7 million (US\$1,096.6 million), approximately RMB2,591.3 million (US\$376.9 million) of which were secured bank borrowings of the Company or a Subsidiary Guarantor.

As of December 31, 2018, the Non-Guarantor Subsidiaries had total bank and other borrowings of approximately RMB4,948.4 million (US\$719.7 million) and the Non-Guarantor Subsidiaries had capital commitments of approximately RMB6,461.8 million (US\$939.8 million) and contingent liabilities of approximately RMB5,932.8 million (US\$862.9 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to the secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets (other than the Collateral) serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* with the Existing *Pari Passu* Secured Indebtedness and all other unsecured and unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

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

- will be a general obligation of such JV Subsidiary Guarantor;
- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, 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, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and 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 and Listed Subsidiaries), 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 (as the case may be), to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have any Restricted Subsidiary organized under laws outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary (such Restricted Subsidiaries, the “New Non-Guarantor Subsidiaries,” and 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 neither Subsidiary Guarantors nor JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, the Exempted Subsidiaries and the Listed 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 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 Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to the benefit of a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “— Security” shared on a *pari passu* basis pursuant to the Intercreditor Agreement with holders of the Existing Pari Passu Secured Indebtedness and holders of the 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 the JV Subsidiary Guarantors (if any) will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that, any JV Subsidiary Guarantee, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, 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 repaid or 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 payment 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, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other Indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such Indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees or 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, merger or disposition 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, merger or disposition 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 Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell or has sold, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with or after the consummation of such sale or issuance of Capital Stock, (a) request the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized under laws outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized under laws outside the PRC will become New Non-Guarantor Subsidiaries (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) request the Collateral Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the Capital Stock it owns in each such New Non-Guarantor Subsidiary (in each case under (a) and (b), 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 under laws outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are neither Subsidiary Guarantors nor JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 20% of the 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 (x) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (y) 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 of the Trustee and the Collateral Agent shall comply with a request referred to in (a) or (b) above if the conditions precedent to such release set forth in the Indenture have been complied with, as evidenced by an Officers' Certificate from the Company to that effect, and the Trustee and the Collateral Agent shall take all actions necessary to effect and evidence such release in accordance with the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% 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 a 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 has been made to an Independent Third Party at a consideration that is not less than the Fair Market Value of such Capital Stock;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor or on a basis more favorable to the Company;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will Guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) 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
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the “Limitation on Asset Sales” and “Limitation on Restricted Payments” covenants.

Any Net Cash Proceeds from the sale or issuance of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.”

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, or caused the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of all of the initial Subsidiary Guarantors (subject to Permitted Liens and the Intercreditor Agreement) on the Original Issue Date in order to secure the obligations of the Company and the Subsidiary Guarantors under the Existing Pari Passu Secured Indebtedness, the Notes and the Subsidiary Guarantees and the Permitted Pari Passu Secured Indebtedness.

The initial Subsidiary Guarantor Pledgors are Redco Properties Holdings Limited (力高地產控股有限公司), Power Creation International Development Limited (力創國際發展有限公司), Maxprofit Globe Holdings Limited (利達集團有限公司), Power Spring International Investments Limited (力泉國際投資有限公司), Top Thrive Real Estates Investments Limited (盛高置業投資有限公司), Li Jia International Investments Limited (力嘉國際投資有限公司), Top Creation Worldwide Investments Limited (創高環球投資有限公司), Wei Li International Developments Limited (偉力國際發展有限公司) and Weisheng International Investments Company Limited (偉盛國際投資有限公司).

None of the Capital Stock of the Non-Guarantor Subsidiaries 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. 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 Collateral Agent.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than any Non-Guarantor Subsidiary and its Subsidiaries) after the Original Issue Date, as soon as reasonably practicable (but in any event within 30 days) after such Person has become a Restricted Subsidiary or has ceased to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be, to secure (subject to Permitted Liens and the Intercreditor Agreement) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

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

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 and the Intercreditor Agreement. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral will likely not to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement, and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (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 Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and any 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 Subsidiary Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such Pari Passu Subsidiary Guarantee, collectively referred to as “Permitted Pari Passu Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant described under “— Limitation on Indebtedness”; (2) the holders of such Indebtedness (or their trustee, representative or agent), other than with respect to Additional Notes, become party to the Intercreditor Agreement referred to below; and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Collateral Agent (as defined below) an Opinion of Counsel and an Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing

of the Security Documents, financing statements or other instruments necessary to make effective the Liens intended to be created by the Security Documents or (y) no such action is necessary to make such Lien effective. The Trustee and/or the Collateral Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to effectuate 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 and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders, the holders of the Existing Pari Passu Secured Indebtedness and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to 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, the Collateral Agent, Citicorp International Limited and others entered into an intercreditor agreement dated as of March 20, 2015 (as such may be amended, modified or supplemented through the Original Issue Date, the “Intercreditor Agreement”) pursuant to which certain rights and interests with respect to the Collateral are regulated and a mechanism for future holders of Permitted Pari Passu Secured Indebtedness to become bound and be entitled to receive a *pro rata* entitlement to and equal priority in the Collateral is created. The 2017 HSB Facility Agent, the 2019 HSB Facility Agent and the trustee for each series of the other Existing Pari Passu Secured Indebtedness that constitutes senior notes acceded to the Intercreditor Agreement prior to the Original Issue Date.

On the Original Issue Date, the Trustee shall execute a supplement to the Intercreditor Agreement pursuant to which the holders of the Notes (through the Trustee) will share equal priority and *pro rata* entitlement in and to the Collateral.

Prior to or concurrently with the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent will accede to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have consented to the accession to of the Intercreditor Agreement and any amendments or modifications thereto required under the Indenture.

Enforcement of Security

The first-priority Lien (subject to any Permitted Lien and the Intercreditor Agreement) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Collateral Agent for itself and for the benefit of the Holders, the Trustee and any other Creditor Representatives.

Citicorp International Limited will act as the Collateral Agent under the Intercreditor Agreement and the Security Documents. The Collateral Agent, subject to the Intercreditor Agreement, will hold such Liens over the Collateral granted pursuant to the Security Documents and the Intercreditor Agreement with sole authority as directed by the written instruction of the Creditor Representatives (as defined herein) to exercise remedies under the Security Documents. The Trustee has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the written instructions provided to it by the Holders under the Indenture 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, the Collateral Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

The Intercreditor Agreement will provide that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any Creditor Representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more Creditor Representatives, the Collateral Agent will only enforce the Collateral upon receiving written instructions from the Creditor Representatives representing a majority of the outstanding principal amount of the Indebtedness under the Debt Documents. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The Intercreditor Agreement may impact the ability of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to pay amounts due under the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Intercreditor Agreement may limit the rights of holders of the Notes to enforce the Collateral.”

All payments received and all amounts held by the Collateral Agent in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Agreement, applied as follows:

First, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any unpaid fees, costs and expenses (including reasonable expenses of its counsel) properly incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses properly incurred in enforcing all available remedies under the Intercreditor Agreement, and the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent is entitled to indemnification under the Intercreditor Agreement, and the Security Documents;

Second, to the extent not reimbursed under the above paragraph, ratably to the Trustee and other Creditor Representatives, to the extent necessary to reimburse the foregoing persons for any unpaid fees, costs and expenses (including expenses of any paying agents, transfer agents, registrars or other agents in connection therewith appointed in connection with the foregoing and reasonable expenses of counsel) reasonably incurred under the Indenture, the Existing Pari Passu Secured Indebtedness, the Security Documents and the agreements governing any Permitted Pari Passu Secured Indebtedness (or any other document in connection with the foregoing that such paying agents, transfer agents, registrars or other agents are party to) in connection with the collection or distribution of such amounts held or realized or in connection with expenses reasonably incurred in enforcing all available

remedies under the Debt Documents, the Intercreditor Agreement, the Security Documents and preserving the Collateral and all indemnification payments for which the foregoing persons are entitled to under the Debt Documents, the Intercreditor Agreement and the Security Documents;

Third, ratably to each of the Trustee for the benefit of the Holders and, to the extent applicable, to other Creditor Representatives (to the extent not paid pursuant to the paragraphs above), inclusive of any reasonable fees and expenses of the foregoing persons and the principal, interest and premium thereon and for the benefit of the holders thereof in accordance with the terms of the relevant Debt Documents; and

Fourth, any surplus remaining after such payments will be paid to the Company, the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to expend its own funds, foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee, the Collateral Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Intercreditor Agreement, or the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence, fraud or willful misconduct of the Collateral Agent.

This section, “— Enforcement of Security”, shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “— Permitted Pari Passu Secured Indebtedness” above.

Release of Security

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 dispositions of any 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 security granted by any Subsidiary Guarantor and security over the Capital Stock of any Subsidiary Guarantor, upon such Subsidiary Guarantor becoming a New Non-Guarantor Subsidiary;
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the release of the Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, of such Subsidiary Guarantor or JV Subsidiary Guarantor, and in accordance with the terms of the Indenture; or
- 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, and in accordance with the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and the JV Subsidiary Guarantees, if any) in all respects (or in all respects except for the issue date, issue price and the 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 prior to May 2, 2021, 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. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. Neither the Trustee nor the Paying Agent is responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to May 2, 2021, 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 109.875% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any securities exchange and/or are held through a clearing system, in compliance with the requirements of the principal securities exchange on which the Notes are listed (if any) and/or the requirements of the clearing system; or
- (2) if the Notes are not listed on any securities exchange, 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 or by applicable securities exchange or clearing system requirements.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% 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 Guarantors' then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The phrase "all or substantially all", as used with respect to the assets of the Company in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), or the jurisdiction through which payments are made or any political subdivision or taxing authority thereof or therein (each, together with a Relevant Jurisdiction, a "Taxing Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary

Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Taxing 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 Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, 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 Taxing Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Taxing Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or

- (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of an official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or stating of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or stating of an official position referred to in the prior paragraph.

The Trustee shall and is entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary (other than a Subsidiary Guarantor) may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) Any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary (x) outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d), or (y) Incurred pursuant to agreements that have been entered into on or prior to the Original Issue Date in the aggregate principal amount at any time not to exceed US\$30 million;

provided that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g), (m) and (o) below);

- (d) Indebtedness of the Company or Indebtedness or Preferred Stock of any Restricted Subsidiary owed to or held by the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness or Preferred Stock (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness and none of the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and none of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be; *provided* further that, any Preferred Stock issued by a Subsidiary Guarantor or a JV Subsidiary Guarantor and held by the Company or another Restricted Subsidiary must by the terms thereof or by operation of law be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
- (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (n), (p), (q), (r), (s), (t), (u) or (v) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (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, as the case may be, 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, as the case may be, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV

Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, (iii) in no event may Indebtedness of the Company, or any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (provided that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of 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 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 Incurred under this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (p), (q)(y), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or 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 or trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided* that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary 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 (together with refinancings thereof) does not exceed US\$50 million (or the Dollar Equivalent thereof);
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Indebtedness Incurred or Preferred Stock or Disqualified Stock issued by any Restricted Subsidiary arising from any Investment made by a Financial Company Investor in a Restricted Subsidiary, and Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a Restricted Subsidiary in favor of a Financial Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Financial Company Investor on Capital Stock of a Restricted Subsidiary held by such Financial Company Investor, *provided* that on the date of such Incurrence of all such

Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock Incurred under this clause (p) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clause (h) above and clauses (q)(y), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (p) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 30% of Total Assets;

- (q) (x) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (q)(x) (together with refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under this clause (q)(x) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 12.5% of Total Assets; or (y) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that (i) such Bank Deposit Secured Indebtedness is not permitted under clause (q)(x) above and (ii) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate of all Indebtedness Incurred under this clause (q)(y) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h) and (p) above and clauses (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (q)(y) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (r) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$50 million (or the Dollar Equivalent thereof);
- (s) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate of all Indebtedness Incurred under this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p) and (q)(y) above and clauses (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or 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 Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate

principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (t) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p), (q)(y) and (s) above and clauses (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets.

- (u) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (q)(y), (s) and (t) above and clause (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (u) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets; and
 - (v) (x) Indebtedness Incurred by the Company or any Restricted Subsidiary which is secured by Investment Properties or long term assets, and Guarantees thereof by the Company or any such Restricted Subsidiary or (y) Capitalized Lease Obligations, or Attributable Indebtedness with respect to a Sale and Leaseback Transaction that would otherwise be permitted under the section entitled “Limitation on Sale and Leaseback Transactions”, Incurred by any PRC 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 Incurred under this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (q)(y), (s), (t) and (u) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph, 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, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

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 Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire such shares) 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 (i) the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of the Company or a Restricted Subsidiary held by any Financial Company Investor;
- (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 the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;” or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50% 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 April 1, 2014 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements);
plus

- (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; *plus*
- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Restricted Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *plus*
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (E) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment") but only to the extent such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c); *plus*
- (v) US\$50 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of any of the following:

- (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 any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) the declaration and 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; *provided that*, with respect to a Restricted Subsidiary of which less than a majority of the Voting Stock is directly or indirectly owned by the Company, such dividend or distribution shall be declared, paid or made on a *pro rata* basis or on a basis more favorable to the Company, as determined by the ownership of the Voting Stock;
- (6) dividends paid to, or the purchase of Capital Stock of the Company or any Restricted Subsidiary held by, any Financial Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(p) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (7) the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed RMB80 million for the fiscal year ended December 31, 2013;
- (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 for the purpose of acquiring interests in, or additional interests in, real property or land use rights (including without limitation, through the acquisition of Capital Stock of any Restricted Subsidiary holding or owning such real property or land use rights), provided that (x) such

purchase occurs within 24 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; provided further that the aggregate principal amount paid by the Company or its Restricted Subsidiaries for any purchase made pursuant to this clause (8) does not exceed an amount equal to 20% of Total Assets;

- (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 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (10) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this “— Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (11) the declaration and payment of dividends by the Company and/or the repurchase of the Company's Common Stock with respect to any financial year, to the extent that such declaration and payment of dividends by the Company pursuant to this clause (11), together with such repurchase of the Company's Common Stock pursuant to this clause (11), does not exceed 20% of the consolidated profit for the year of the Company calculated in accordance with GAAP; or
- (12) the distributions or payments of Securitization Fees in connection with Receivable Financings, *provided* that such distributions or payments declaration in connection with Receivable Financings shall not exceed 5% of the Total Assets,

provided that, in the case of clause (2), (3), (4), or (7) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment made pursuant to clause (1) and (11) 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 must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (12) above), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

For purposes of determining compliance with this "— Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this "— Limitation on Restricted Payments" covenant and paragraph (18) of the definition of "Permitted Investment" at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of them.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, 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 the property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock or Disqualified Stock of the type described under clause (2)(h), (2)(o), (2)(p), (2)(q), (2)(s), (2)(t), (2)(u) or (2)(v) or permitted under clause (2)(n) or (2)(r) of the “— Limitation on Indebtedness and Preferred Stock” covenant if the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced; *provided* further that, the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution;
- (g) existing in customary provisions in shareholders agreement, 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 (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to

materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; *provided* further that, the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; or

- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such former Unrestricted Subsidiary or its subsidiaries or the property or assets of such former Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the sale or issuance of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such sale or issuance, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "— Limitation on Restricted Payments" covenant if made on the date of such sale or issuance and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant; or
- (4) the sale or issuance of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such sale or issuance); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such sale or issuance in accordance with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is neither a Subsidiary Guarantor nor 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 Indebtedness is permitted by clauses (2)(c), (2)(d) or (2)(q) (in the case of clause (2)(q), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts, bank deposits or other assets to secure (or the use of any Guarantee or letter of credit or similar instruments to Guarantee) any Bank Deposit Secured Indebtedness), under the caption “— Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

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 arm’s length 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 compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) or (2) 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 scheme, so long as such scheme is in compliance with the listing rules of the Hong Kong Stock Exchange, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement, and any purchase of Capital Stock of a Restricted Subsidiary held by a Financial Company Investor; and
- (7) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) of the second paragraph of the covenant entitled “— Limitation on Restricted Payments.”

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (including Permitted Investments that are permitted under paragraph (18) of the definition of “Permitted Investments” but otherwise excluding any other Permitted Investments) not prohibited by the “— Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and a 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, (b) in the case of a transaction with a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary or being a Subsidiary of the Company), and (c) in the case of a transaction with a Minority Joint Venture or an Unrestricted Subsidiary, none of the shareholders or partners (other than the Company or a Subsidiary of the Company) of such Minority Joint Venture or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Minority Joint Venture or Unrestricted Subsidiary or by reason of such shareholder or partner being, the Company or a Subsidiary or Minority Joint Venture of the Company).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the

Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of 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 (other than current assets that are not land use rights, properties under development or completed property held for sale) that will be used in a Permitted Business ("Replacement Assets").

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the 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 related 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 of the Notes plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a *pro rata* basis by lot or such other method the Trustee determines in its sole and absolute discretion. 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) as specified under the caption “Use of Proceeds” in this offering memorandum 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 (other than any Guarantee in compliance with clause (6) below) for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (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”.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been

incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens;” (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under “— The Subsidiary Guarantees and the JV Subsidiary Guarantees”; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned directly by the Company or any other Restricted Subsidiary shall be pledged to the extent required under “— Security”.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply with would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either 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 Sale and Leaseback Transactions”;
- (7) “— Certain Covenants — Limitation on Asset Sales”; and
- (9) Clause (4) under the first and second paragraphs of the covenant described under “— Consolidation, Merger and Sale of Assets.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the Hong Kong Stock Exchange or any other recognized exchange on which the Company’s ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis and in English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;

- (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis and in English language) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of its unaudited financial statements (on a consolidated basis and in English language), 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 most recent fiscal year 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 auditor verifying the accuracy of the calculation and arithmetic computation; *provided* that, the Company shall not be required to provide such auditor certification if its external auditor refuse to provide such certification as a result of a policy of such external auditor not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under 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 first priority Lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) in accordance with the covenant described under the caption "— Security";

- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a 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\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or for any substantial part of the property and assets of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or for all or substantially all of the property and assets of the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that

arises from any solvent liquidation or restructuring of a Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) in the ordinary course of business that shall result in the net assets of such Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary) being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company);

- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee 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 Indenture and the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens and the Intercreditor Agreement).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders shall, subject to receiving indemnity and/or security to its satisfaction, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Significant Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders 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, or the Trustee may, in accordance with and subject to the Intercreditor Agreement, instruct the Collateral Agent to, 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 or subject to the Intercreditor Agreement, instruct the Collateral Agent to enforce the Security Documents to the extent necessary. 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, subject to the Intercreditor Agreement (if any), the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, (subject to receiving satisfactory indemnity and/or security) instruct the Collateral Agent to foreclose on the Collateral in accordance with the terms of the Security Documents and the Indenture and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See the section entitled “— 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 is unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action that is not inconsistent with any such direction received from Holders. The Trustee shall not be required to expend its funds in following such direction if it does not reasonably believe that reimbursement or indemnity and/or security is assured to it.

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 written request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the written request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company’s and the

Subsidiary Guarantors' 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 in writing of any Default or Defaults in the performance of any covenants or agreements under the Indenture. See “— Provision of Financial Statements and Reports.”

None of the Trustee or any Agent is obligated to do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and each of the Trustee and the Agents may assume that no such event has occurred and that the Company and the Subsidiary Guarantors are performing all of their obligations under the Indenture unless the Trustee or the Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Company and the Subsidiary Guarantors are not performing all of their obligations under the Indenture and/or the Notes.

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes, the Intercreditor Agreement, and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes, the Intercreditor Agreement, and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “— Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which such Subsidiary Guarantor or JV Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless 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.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any 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 for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;

- (2) the Company has delivered to the Trustee 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 the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that (i) 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,” and (ii) 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 clause (i) above, clause (4) under “Events of Default” with respect to such other covenants in clause (i) above and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement (if any) and any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement, or any Security Document;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or any JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor or any Collateral as provided or permitted by the terms of the Indenture;
- (7) add any additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee (if any);
- (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 applicable securities depository or clearing system;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee or the Collateral Agent to enter into, supplement or amend the Intercreditor Agreement, 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 or the JV Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement (if any) and 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 aggregate principal amount of the outstanding Notes may amend or waive future compliance by the Company, the Subsidiary Guarantor Pledgors, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) 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 or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Agreement (if any), 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 (if any), any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other

proceeds from any Asset Sale, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “— Limitation on Asset Sales”;

- (13) change the redemption date or the redemption price of the Notes from that stated under the caption “— Optional Redemption” or “— Redemption for Taxation Reasons;”
- (14) amend, change or modify the obligation of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Agents

Citicorp International Limited will be appointed as Trustee under the Indenture. Citibank, N.A., London Branch will be appointed as registrar (the “Registrar”) and paying agent and transfer agent (the “Paying and Transfer Agent” and together with the Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee will not be under any obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. None of the Trustee, the Agents, or the Collateral Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Intercreditor Agreement (if any) or other Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except as a result of the fraud, gross negligence or willful default of the Trustee, the Agents or the Collateral Agent.

Citicorp International Limited will initially act as the Collateral Agent under the Security Documents in respect of the security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Agreement (if any) and the Security Documents. Under certain circumstances, the Collateral Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Agreement (if any) that are in conflict with the interests of the Trustee, the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Collateral Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement (if any) or any other Security Document for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have instructed the Trustee in writing and have offered to the Trustee and/or the Collateral 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 Collateral Agent, that it is solely responsible for its own independent appraisal of an investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Collateral Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Initial 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. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

Global Notes

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of the Agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (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 depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the 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 additional amounts may be paid as described under “— Additional Amounts”.

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of the Agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or

Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

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 a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions".

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of the Agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the Trustee for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor at Room 1-2, Enterprise Square 3, Kowloon Bay, Hong Kong, Fax: (852) 2758 8342, Attention: President (Mr. Huang Ruoqing), (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 National Corporate Research, Ltd. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York. The relevant pledge documents pursuant to “— Security” are expected to be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2017 HSB Facility Agent” means Hang Seng Bank Limited as the agent of the finance parties under the 2017 HSB Loan Agreement.

“2017 HSB Loan Agreement” means the US\$200,000,000 term loan facility agreement dated July 20, 2017 between, among others, the Company and the HSB Facility Agent.

“2019 HSB Facility Agent” means Hang Seng Bank Limited as the agent of the finance parties under the 2019 HSB Loan Agreement.

“2019 HSB Loan Agreement” means the US\$175,000,000 term loan facility agreement dated March 27, 2019 between, among others, the Company and the HSB Facility Agent.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 2, 2021, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note on May 2, 2021 (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 the maturity date of the Notes (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 of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 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 1 2018 Notes” means the 8.0% senior notes due 2019 issued by the Company in accordance with an indenture dated August 1, 2018.

“August 29 2018 Notes” means the 11.0% senior notes due 2020 issued by the Company in accordance with an indenture dated August 29, 2018.

“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, bank deposits or other assets of the Company or a Restricted Subsidiary or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchanges of U.S. dollars or Hong Kong dollars or other foreign currencies into Renminbi or vice versa or to remit Renminbi or any foreign currency into or outside the PRC.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in the City of New York, London or Hong Kong (or in the place of business of the Paying Agent or 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 (other than one or more Permitted Holders);
- (2) the Permitted Holders are the beneficial owners of less than 50.1% 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 a majority of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company. “Change of Control Triggering Event” means the occurrence of a Change of Control. “Clearstream” means Clearstream Banking, S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors held by the Company or the initial Subsidiary Guarantor Pledgors.

“Collateral Agent” means Citicorp International Limited, initially, acting under the Security Documents and the Intercreditor Agreement (if any), for itself and the benefit of the Holders, the Trustee and any other Secured Parties thereunder.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against 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 May 2, 2021 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 May 2, 2021.

“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 Trustee) 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 for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its 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, including for the avoidance of doubt, capitalized interest included in cost of sale,

- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets not included in the calculation of Consolidated EBITDA), including, for the avoidance of doubt, corporate income tax and land appreciation tax, and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than 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 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.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“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 (other than the Company or any Restricted Subsidiary) that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) *provided* that, in the case of Indebtedness secured by a Lien on assets, the amount of accrued interest of such Indebtedness will be the lesser of (a) the book value of such assets at such date of determination, and (b) the actual amount of such accrued interest, *provided further* that, in each case of Indebtedness so Guaranteed or secured, interest accruing thereon shall be included only to the extent that such interest has become payable 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); *provided* that in the case of (b), other than any gains realized on the sale or other disposition of Capital Stock of a Restricted Subsidiary whose only material asset is a real estate project or a phase of a real estate project where not less than 75% of the aggregate gross planned floor area of such real estate project or phase has been sold or pre-sold;
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after tax extraordinary or non-recurring gains;

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income;

(B) for purposes of the Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income; and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any 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 assets, real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Creditor Representatives” means, collectively, the Trustee, the 2017 HSB Facility Agent, the 2019 HSB Facility Agent, the trustees for each series of the Existing Pari Passu Secured Indebtedness that constitutes senior notes and the holders (or their trustees, representatives or agents) of any Permitted Pari Passu Secured Indebtedness that have become a party to the Intercreditor Agreement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Debt Documents” means, collectively, the Indenture, the Existing Pari Passu Secured Indebtedness and the documents evidencing any Permitted Pari Passu Secured Indebtedness.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date that is 183 days after

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), clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee, a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement (if any); *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” means the 2017 Facility Agreement, the August 1 2018 Notes, the August 29 2018 Notes, the January 22 2019 Notes and the 2019 HSB Facility Agreement.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination

shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Financial Company Investor” means a bank, financial institution, trust company, fund management company, asset management company, financial management company or insurance company, or an Affiliate thereof, that invests in any Capital Stock of a Restricted Subsidiary.

“Fitch” means Fitch Ratings, Inc. and its affiliates.

“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 quarter 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 or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that

would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the 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, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations;
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and
- (10) any Preferred Stock issued by such Person if such Person is a Restricted Subsidiary, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business or any Entrusted Loan; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (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 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 protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the Company’s proportionate interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Receipt” means, at any time, with respect to an Investment under clause (20) of the definition of “Permitted Investment”, an amount equal to the net reduction in all Investments made under clause (20) of the definition of “Permitted Investment” since the Original Issue Date resulting from (A) receipt of payments 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) with respect to Investments in Persons, the unconditional release of a Guarantee of any obligation of any Person provided under such clause (20) 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 such clause (20) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the reasonable costs of disposition, if any) and (y) the initial amount of such Investment, or (D) for any Investment in a Person, such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment” definition).

“Investment Grade” means (i) 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 S&P or any of its successors or assigns, (ii) a rating of “AAA,” “AA,” “A” or “BBB,” as modified

by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Fitch or both of them, as the case may be.

“Investment Property” means any property that is owned and held by the Company or any Restricted Subsidiary primarily for rental yields or for capital appreciation or both, or any 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 2019 Notes” means the 13.5% senior notes due 2020 issued by the Company in accordance with an indenture dated January 22, 2019.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor which is not a Subsidiary of another JV Subsidiary Guarantor, together with 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.

“Listed Subsidiary” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; provided that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Measurement Date” means August 1, 2014.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary and primarily engaged in the Permitted Business, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued 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.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof accepted for payment. 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.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“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 Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or another Subsidiary Guarantor or JV Subsidiary Guarantor; *provided that* (1) the Company, or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, 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 any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted 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) (x) Wong Yeuk Hung, Huang Ruoqing and the children and spouse of Wong Yeuk Hung or Huang Ruoqing; and (y) any family trust set up by Persons listed in sub-clause (x) of this clause (1) *provided that* one or more of such Persons are the initial grantors or trust beneficiaries;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of any 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 one or more 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) any Investment in cash or 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 not entered into for speculation and designed to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, (x) if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms, or (y) subject to clause (18) of this definition, if created or acquired in the ordinary course of business in connection with any sale or disposal of any asset of the Company or any Restricted Subsidiary, which receivable shall be paid within 24 months after the creation or acquisition thereof;
- (8) Investments 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, welfare and social benefits, property maintenance 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 or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person), in each case in the ordinary course of business;
- (16) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company's balance sheet;
- (17) Guarantees permitted under clause (2)(p) or (2)(s) of the covenant under “— Limitation on Indebtedness and Preferred Stock”;
- (18) any Investment by the Company or any Restricted Subsidiary (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the issuance or sale of Capital Stock of a Restricted Subsidiary) in (x) any Person of which at least 20% of the Capital Stock and Voting Stock is (or upon the making of such Investment, will be) owned, directly or indirectly, by the Company or any Restricted Subsidiary (such Person, an “Associate”) or (y) any Person; *provided that*:
 - (i) (x) the aggregate of all Investments made under this clause (18) since the Original Issue Date, together with the receivables owing to the Company or any Restricted Subsidiary created or acquired under clause (7)(y) of this definition since the Original Issue Date, shall not exceed in aggregate an amount equal to 25% of Total Assets, and (y) the aggregate of all Investments made under this clause (18) in any Person (other than an Associate) since the Original Issue Date shall not exceed in aggregate an amount equal to 5.0% of Total Assets.

Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (18) (and net reductions in all receivables created or acquired under clause (7)(y)) since the Original Issue Date resulting from:

- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause (18) (or payment or satisfaction of any receivable created or acquired under clause (7)(y)), in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
- (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person,
- (C) to the extent that an Investment made after the Original Issue Date under this clause (18) (or a receivable created or acquired after the Original Issue Date

under clause (7)(y)) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment, or receivable, as the case may be (less the cost of disposition, if any) and (y) the initial amount of such Investment, or receivable, as the case may be,

(D) redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, or

(E) any such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person (or receivables owing by such Person to the extent created or acquired under clause (7)(y)) since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment”),

not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (18) or the amount of receivables created or acquired after the Original Issue Date permitted under clause (7)(y)), as the case may be,

- (ii) if the Person into which such Investment is made is (or will be, upon making such Investment) an Associate, such Person is primarily engaged in a Permitted Business;
- (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (18) is, or in the case of clause (7)(y), none of the other shareholders or partners in a Person by which such receivable is owing is, a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “— Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of such shareholder or partner being the Company or a Subsidiary or Minority Joint Venture of the Company);
- (iv) no Default has occurred and is continuing or would occur as a result of such Investment (or in the case of clause (7)(y), as a result of creating or acquiring such receivable); and
- (v) in the case of any Investment by the Company or any Restricted Subsidiary in a Person (or in the case of clause (7)(y), any receivable is owing by 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 any of its Restricted Subsidiaries, at the time of such Investment the Company could 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 of Indebtedness and Preferred Stock”;

for the avoidance of doubt, (x) the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made and (y) the limitations set forth in paragraph (ii) of this clause (18) shall not apply to the receivables created or acquired under clause (7)(y);

- (19) any Investment in a subordinated tranche of interests in a Receivable Financing with multiple tranches offered and sold to investors that, in the good faith determination of the Board of Directors, is necessary or advisable to effect such Receivable Financing; and

(20) any Investment made by the Company or any Restricted Subsidiary, provided that the aggregate amount of all Investments made after the Original Issue Date under this clause (20) less the aggregate amount of all Investment Receipts received after the Original Issue Date in connection with such Investment made after the Original Issue Date under this clause (20), shall not exceed US\$50 million.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;

- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease or Capitalized Leases;
- (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 financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) (other than, in each case, deposits of loan proceeds securing performance of obligations in relation to the use of such loan proceeds under a loan agreement to which such loan proceeds relate to, entered into by the Company or any Restricted Subsidiary, if the Indebtedness Incurred under such loan agreement is otherwise permitted under the other terms of the Indenture) 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, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens granted by the Company or a Restricted Subsidiary in favor of a Financial Company Investor in respect of, and to secure, the Indebtedness permitted under clause 2(p) of the covenant described under the “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant;
- (23) Liens securing Indebtedness permitted under clause (2)(n) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (24) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(o) or (2)(u) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (25) Liens incurred on one or more bank accounts, deposits or other assets made to secure Bank Deposit Secured Indebtedness;
- (26) Liens securing Indebtedness permitted under clause (2)(s) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (27) Liens Incurred on deposits made to secure Entrusted Loans;
- (28) Liens on Investment Properties or long term assets securing Indebtedness of the Company or Restricted Subsidiary permitted under clause (2)(v) of the covenant described under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”; and
- (29) Liens securing Indebtedness permitted to be Incurred under clause (2)(r) of the covenant described under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”,

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (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 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 (excluding, without duplication, any Public Indebtedness, any Indebtedness of any Subsidiary Guarantor and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (o) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 20% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“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.

“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.

“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 or Singapore Exchange Securities Trading Limited 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).

“Rating Agencies” means (1) S&P and (2) Fitch, provided that if S&P or Fitch or both of them shall not make a rating of the Company publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Fitch, or both of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P, Moody’s or 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 S&P; “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, 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 Company is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes rated by both of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes rated by both of the Rating Agencies or less than two Rating Agencies and are rated below Investment Grade by all such Rating Agencies or Rating Agency on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Receivable Financing” means any financing transaction or series of financing transactions that have been or may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to another Person, or may grant a security interest in, any of its receivables, mortgages, royalty, other revenue streams or interests therein (including without limitation, all security interests in goods financed thereby

(including equipment and property), the proceeds of such receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization or factoring transactions involving such assets) for credit or liquidity management purposes (including discounting, securitization or factoring transactions).

“Receivable Financing Assets” means assets that are underlying and are sold, conveyed or otherwise transferred or pledged in a Receivable Financing.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in the City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“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 Collateral Agent or the Trustee for the benefit of themselves and of the secured parties that shall include the Holders, in any or all of the Collateral securing, with respect to the Notes, the obligations of the Company under the Notes and the Indenture and of the Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantees.

“Securitization Fees” means distributions or payments made directly or by means of discounts with respect to any Receivable Financing Asset or participation interest therein issued or sold in connection with and other fees paid to a Person that is not a Restricted Subsidiary in connection with any Receivable Financing.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Subsidiary” means a Restricted Subsidiary, when consolidated with its Restricted Subsidiaries, that would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5%.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire 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.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such entity.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any Person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area 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 “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) (i) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong or (ii) structured deposit products with a term not exceeding six months that are principal protected with any banks organized under the laws of the PRC.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that:

- (1) only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness;
- (2) only with respect to clause (2)(t) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving *pro forma* effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary; and
- (3) only with respect to any Person becoming a New Non-Guarantor Subsidiary, *pro forma* effect shall at such time be given to the consolidated assets of such New Non-Guarantor Subsidiary (including giving *pro forma* effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a New Non-Guarantor Subsidiary).

“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.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that

(except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain 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

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from July 29, 2008. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company or to holders of the Notes by reason only of holding the Notes levied by the government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

BVI

There is no income or other tax of the British Virgin Islands 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 (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged

on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Interest payments on the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue 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
- 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 disposition 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 of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

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 and was recently amended on December 29, 2018, imposes a withholding tax at the rate of 10% on interest from PRC sources paid to 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 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 Conducting Business in the PRC — We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and may result in PRC withholding taxes on interest we pay on the Notes and PRC tax on gains from the transfer of the Notes.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, interest and premium, if any, paid 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 the case of non-resident enterprise holders of the Notes pursuant to the EIT Law, or PRC individual withholding tax at the rate of 20% in the 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 or any

premium payments, but there can be no assurance that the PRC income tax authorities will accept our position on this 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.

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 an 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 Conducting Business in the PRC — We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and may result in PRC withholding taxes on interest we pay on the Notes and PRC tax on gains from the transfer of the Notes.” 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 withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the EIT Law, or PRC individual income tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws. 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.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside China).

PLAN OF DISTRIBUTION

Credit Suisse (Hong Kong) Limited, UBS AG Hong Kong Branch, Orient Securities (Hong Kong) Limited, Haitong International Securities Company Limited and The Bank of East Asia, Limited are acting as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated April 23, 2019, each Initial Purchaser named below has severally but not jointly agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of Notes
Credit Suisse (Hong Kong) Limited.	US\$77,000,000
UBS AG Hong Kong Branch	US\$77,000,000
Orient Securities (Hong Kong) Limited	US\$10,000,000
Haitong International Securities Company Limited	US\$13,000,000
The Bank of East Asia, Limited.	<u>US\$3,000,000</u>
Total	<u><u>US\$180,000,000</u></u>

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to certain other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum only outside the United States in offshore transactions in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

During the period beginning on the date hereof and continuing to the date that is seven days after the date on which the Notes are issued, without the prior written consent of the Initial Purchasers, none of the Company and the Subsidiary Guarantors will offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company or the Subsidiary Guarantors that are substantially similar to the Securities (other than the Securities and any Additional Notes (as defined in the Indenture) or any debt securities offered primarily in the PRC).

The Notes will constitute a new class of securities with no established trading market. Application has been made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering of the Notes, the Initial Purchasers may engage in stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the sixth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days; purchasers who wish to trade Notes on the date of pricing or the succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+6, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes, all to the extent permitted under the Indenture. Our obligations under these transactions may be secured by cash or other collateral to the extent permitted under the Indenture.

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

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Selling Restrictions

General

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

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:

- (a) 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 2002/92/EC (as amended or superseded, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

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, 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.

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.” The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which Section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

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

Japan

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

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i)

to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each of the Initial Purchasers has severally represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) (collectively, the “Securities”).

The Notes are subject to restrictions on transfer as summarized below. By purchasing 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;
 - the Securities are being offered and sold only outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
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 that 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 also acknowledge that each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH

TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Initial Purchasers, the Registrar and 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 Initial Purchasers, the Registrar and the Transfer Agent. 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 B by Standard & Poor's and B by Fitch. Such ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other ratings on the Notes, on other securities of ours, or on us. Additionally, we have been assigned B with a stable outlook by Standard & Poor's Ratings Services and B with a stable outlook by Fitch Ratings Ltd. We cannot assure you that our corporate credit rating will remain in effect for any given period or that the ratings will not be lowered, put on negative outlook or CreditWatch negative, or otherwise revised or withdrawn entirely by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law, Conyers Dill & Pearman as to matters of Cayman Islands law and BVI law and JunHe LLP as to matters of PRC Law. Certain legal matters will be passed upon for the Initial Purchasers by Norton Rose Fulbright Hong Kong as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated April 18, 2019.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes 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, 2018 that is material in the context of the issue of the Notes.

Documents available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected by holders of the Notes upon satisfactory proof of holding free of charge during normal business hours on any Business Day (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 Business Day (except public holidays) at the principal office of the Company.

Clearing systems

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

ISIN	Common Code
1989092116	198909211

Listing of the Notes

Application has been made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

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

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Audited consolidated financial statements as of and for the year ended December 31, 2018⁽¹⁾

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Note:

- (1) The audited consolidated financial statements set out herein have been reproduced from the Company's annual reports for the years ended December 31, 2017 and 2018 and page references are references to pages set forth in such annual reports.



羅兵咸永道

To the Shareholders of Redco Properties Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Redco Properties Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 76 to 181, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.



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. Key audit matters identified in our audit are:

- Valuation of investment properties
- Classification of investments

Key Audit Matter

How our audit addressed the Key Audit Matter

Valuation of investment properties

Refer to Note 2.7, 4.1 and 14 to the consolidated financial statements

As at 31 December 2018, the carrying amount of the Group's investment properties in the People Republic of China ("PRC") was approximately RMB803.9 million and a fair value gain of approximately RMB84.2 million was recognised in the consolidated statement of profit or loss during the year. The Group engaged an independent external valuer to perform a valuation of the investment properties as at 31 December 2018.

The valuation of the investment property prepared under income capitalisation approach was dependent on certain key assumptions that required significant management judgement, including capitalisation rate, fair market rent and fair market price. The valuation of the investment property under construction prepared under residual approach was also dependent upon the estimated costs to completion and expected developer's profit margin.

The significant judgement and estimates involved in the valuation warrants specific audit focus and attention on this area.

Our procedures in relation to the valuation of the investment properties included:

- We assessed the competence, capability and independence of the independent external valuer;
- We engaged our in-house valuation experts to assess the appropriateness of the valuation methodology used by the valuer and the reasonableness of the key assumptions adopted in the valuation based on their knowledge of the property industry; and
- We checked, on a sample basis, the accuracy and relevance of the input data used, including the capitalisation rate, fair market rent and fair market price, to the recent renewal of lease or sale transactions of the Group and of the market. For the estimated costs to completion and expected developer's profit margin, we also checked to the construction budget and historical information of similar properties of the Group.

Based on the audit procedures performed, we consider the methodology used in preparing the valuations were appropriate and the key assumptions were supportable in light of available internal and other market evidence.



Key Audit Matter (Continued)

How our audit addressed the Key Audit Matter
 (Continued)

Classification of investments

Refer to Note 2.2, 2.3, 4.2, 15 and 28 to the consolidated financial statements

During the year ended 31 December 2018, the Group made investments with consideration of approximately RMB 755.6 million in subsidiaries and RMB 66.7 million in associates.

We focused on this area due to the magnitude of the investments and the fact that significant judgements were made by management in determining the appropriate classification of the investments that involved complex terms and arrangements.

Our procedures in relation to the classification of investments included:

- We read the contracts and agreements in relation to those investments made in the current year. We assessed the terms and conditions of those investments, including evaluation of whether there is any indication or evidence of control or significant influence found in the detailed arrangement of these investments, to determine whether appropriate classification had been adopted by management in relation to those investments based on the consideration of the totality of facts.
- We discussed with management and obtained management assessment to understand their critical judgement in the classification of investments that they had applied.
- We also discussed with management to obtain an understanding on the details of such investments, including relevant activities of the investee companies and how decisions about those activities are made, how the Group and other investors participate in the decisions, the rights and power of the Group and other investors on the investee companies.

Based on the procedures performed, we noted that management's judgement applied in the classification of investments was supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



REDCO PROPERTIES GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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.
- 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.

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 Chow Shiu Hay, Antonio.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2019



REDCO PROPERTIES GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 RMB' 000	2017 RMB' 000
Revenue	5	6,735,931	6,734,067
Cost of sales	6	(4,348,211)	(5,057,627)
Gross profit		2,387,720	1,676,440
Other gains/(losses), net	7	248,469	(15,803)
Selling and marketing expenses	6	(183,499)	(195,475)
General and administrative expenses	6	(424,221)	(233,450)
Fair value gain on investment properties	14	84,172	359,036
Impairment of goodwill	12	—	(49,535)
Operating profit		2,112,641	1,541,213
Finance income	9	95,025	44,729
Finance costs	9	(71,662)	(70,945)
Finance income/(cost), net		23,363	(26,216)
Share of profit of investments accounted for using the equity method, net	15	77,468	82,870
Profit before income tax		2,213,472	1,597,867
Income tax expense	10	(917,044)	(607,735)
Profit for the year		1,296,428	990,132
Profit attributable to:			
Owners of the Company		990,747	862,237
Non-controlling interests		305,681	127,895
		1,296,428	990,132
Earnings per share for profit attributable to owners of the Company for the year			
– Basic and diluted (expressed in RMB cents per share)	32	27.90	24.28

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 RMB' 000	2017 RMB' 000
Profit for the year	1,296,428	990,132
Other comprehensive (loss)/income		
Item that may be reclassified to profit or loss		
– Currency translation differences	(218,452)	171,999
Total other comprehensive (loss)/income	(218,452)	171,999
Total comprehensive income for the year	1,077,976	1,162,131
Total comprehensive income attributable to:		
– Owners of the Company	773,425	1,032,876
– Non-controlling interests	304,551	129,255
Total comprehensive income for the year	1,077,976	1,162,131

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



REDCO PROPERTIES GROUP LIMITED

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 RMB' 000	2017 RMB' 000
ASSETS			
Non-current assets			
Property, plant and equipment	11	221,300	36,489
Investment properties	14	803,899	434,669
Investments accounted for using the equity method	15	700,294	1,034,521
Prepayments	19	60,000	475,236
Deferred income tax assets	16	459,833	238,931
		<u>2,245,326</u>	<u>2,219,846</u>
Current assets			
Completed properties held for sale	17	2,133,818	1,564,092
Properties under development for sale	18	15,680,128	5,728,454
Contract assets	5	700,000	—
Trade and other receivables and deposits	19	3,371,544	3,082,594
Prepayments	19	1,053,610	964,113
Amounts due from joint ventures	34	4,844	53,123
Amounts due from associates	34	364,871	32,719
Amounts due from non-controlling interests	33	1,414,342	672,675
Income tax recoverable		312,821	180,948
Restricted cash	20	2,186,139	1,318,450
Cash and cash equivalents	20	5,678,863	3,587,062
		<u>32,900,980</u>	<u>17,184,230</u>
Assets classified as held for sale	21	—	467,931
		<u>32,900,980</u>	<u>17,652,161</u>
Total assets		<u>35,146,306</u>	<u>19,872,007</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	139,632	139,632
Reserves	23	4,237,813	3,672,089
		<u>4,377,445</u>	<u>3,811,721</u>
Non-controlling interests		<u>2,287,973</u>	<u>797,579</u>
Total equity		<u>6,665,418</u>	<u>4,609,300</u>



	Note	2018 RMB' 000	2017 RMB' 000
LIABILITIES			
Non-current liabilities			
Borrowings	24	4,912,751	3,982,100
Deferred income tax liabilities	16	286,051	265,604
		<u>5,198,802</u>	<u>4,247,704</u>
Current liabilities			
Trade and other payables	25	6,323,532	2,156,112
Borrowings	24	6,146,930	3,261,119
Amounts due to non-controlling interests	33	2,123,659	116,414
Amount due to an associate	34	66,000	—
Amounts due to joint ventures	34	23,756	140,209
Contract liabilities	26	7,169,457	—
Receipts in advance	26	—	4,507,441
Income tax liabilities		1,428,752	832,164
		<u>23,282,086</u>	<u>11,013,459</u>
Liabilities directly associated with assets classified as held for sale	21	—	1,544
		<u>23,282,086</u>	<u>11,015,003</u>
Total liabilities		<u>28,480,888</u>	<u>15,262,707</u>
Total equity and liabilities		<u>35,146,306</u>	<u>19,872,007</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 76 to 181 were approved for issue by the Board of Directors on 29 March 2019 and were signed on its behalf:

WONG Yeuk Hung
Director

HUANG Ruoqing
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company			Non-controlling interests RMB' 000	Total equity RMB' 000	
	Note	Share capital RMB' 000	Reserves RMB' 000			Total RMB' 000
Balance at 1 January 2017, as previously reported		139,632	2,662,236	2,801,868	555,158	3,357,026
Change in accounting policy		—	48,009	48,009	—	48,009
Balance at 1 January 2017 (Restated)		139,632	2,710,245	2,849,877	555,158	3,405,035
Comprehensive income						
– Profit for the year		—	862,237	862,237	127,895	990,132
Other comprehensive income						
– Currency translation differences		—	170,639	170,639	1,360	171,999
Total comprehensive income for the year		—	1,032,876	1,032,876	129,255	1,162,131
Transactions with owners						
Non-controlling interests arising on acquisitions of subsidiaries		—	—	—	101,466	101,466
Capital injection from non-controlling interests		—	—	—	11,700	11,700
Dividends relating to 2017 interim		—	(71,032)	(71,032)	—	(71,032)
Total transactions with owners, recognised directly in equity		—	(71,032)	(71,032)	113,166	42,134
Balance at 31 December 2017		139,632	3,672,089	3,811,721	797,579	4,609,300

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



	Note	Attributable to owners of the Company			Non-controlling interests RMB' 000	Total equity RMB' 000
		Share capital RMB' 000	Reserves RMB' 000	Total RMB' 000		
Balance at 1 January 2018, as previously reported		139,632	3,672,089	3,811,721	797,579	4,609,300
Change in accounting policy (Note 2.1.2)		—	(22,173)	(22,173)	(9,742)	(31,915)
		<u>139,632</u>	<u>3,649,916</u>	<u>3,789,548</u>	<u>787,837</u>	<u>4,577,385</u>
Comprehensive income						
– Profit for the year		—	990,747	990,747	305,681	1,296,428
Other comprehensive income						
– Currency translation differences		—	(217,322)	(217,322)	(1,130)	(218,452)
Total comprehensive income for the year		—	<u>773,425</u>	<u>773,425</u>	<u>304,551</u>	<u>1,077,976</u>
Transactions with owners						
Change in ownership interests in a subsidiary without change of control	29	—	9,810	9,810	(28,350)	(18,540)
Non-controlling interests arising from acquisitions of subsidiaries	28	—	—	—	285,493	285,493
Non-controlling interests arising from step acquisition	28	—	—	—	238,914	238,914
Capital injection from non-controlling interests		—	—	—	699,528	699,528
Dividends relating to 2017 final		—	(106,548)	(106,548)	—	(106,548)
Dividends relating to 2018 interim		—	(88,790)	(88,790)	—	(88,790)
Total transactions with owners, recognised directly in equity		—	<u>(185,528)</u>	<u>(185,528)</u>	<u>1,195,585</u>	<u>1,010,057</u>
Balance at 31 December 2018		<u>139,632</u>	<u>4,237,813</u>	<u>4,377,445</u>	<u>2,287,973</u>	<u>6,665,418</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



REDCO PROPERTIES GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB' 000	2017 RMB' 000
Cash flows from operating activities			
Net cash (used in)/generated from operations	27	(1,624,343)	331,287
Income tax paid		(631,728)	(466,158)
Net cash used in operating activities		(2,256,071)	(134,871)
Cash flows from investing activities			
Additions of property, plant and equipment		(22,798)	(441,929)
Proceeds from disposal of property, plant and equipment	27	647	944
Capitalised subsequent expenditure on an investment property	14	(204)	(131)
Payments for acquisition and step acquisition of subsidiaries, net of cash acquired	28	(442,095)	(516,728)
Net cash outflows in respect of the disposal of subsidiaries		—	(672)
Net cash inflows in respect of the disposal of assets and liabilities held for sales	29	369,731	—
Payments for investment in joint ventures	15	(500)	(500)
Payments for investment in associates	15	(66,699)	(275,664)
Payments for prepayments for investment in an associate	19	(60,000)	—
Proceeds from the disposal of a joint venture	15	—	16,875
Advances to non-controlling interests		(711,379)	(189,768)
Advances to associates		(79,763)	(22,990)
Repayment of advances to joint ventures		48,258	92,465
Loans due from joint ventures		(4,436)	(94,089)
Loan due from an associate		—	(243,393)
Loans due from third parties		(207,620)	—
Interest received		34,945	19,012
Net cash used in investing activities		(1,141,913)	(1,656,568)
Cash flows from financing activities			
Increase in restricted cash		(97,800)	—
Proceeds from bank and other borrowings		4,572,845	4,997,001
Repayment of bank and other borrowings		(3,037,142)	(2,111,100)
Issuance of 7% Senior Note due 2018		—	1,673,784
Issuance of 6.375% Senior Note due 2019		2,277,435	—
Issuance of 11% Senior Note due 2020		1,310,388	—
Repayment of 7% Senior Note due 2018		(1,799,231)	—
Payment for repurchase of 6.375% Senior Note due 2019		(6,748)	—
Redemption of 13.75% Senior Note due 2019		—	(899,974)
Advance from/(repayment to) non-controlling interests		2,007,245	(334,894)
Advances from joint ventures		129,241	74,546
Advance from an associate		66,000	—
Proceeds from capital injection from non-controlling interests		699,528	11,700
Interest paid		(496,389)	(350,877)
Dividend paid		(149,908)	(64,125)
Net cash generated from financing activities		5,475,464	2,996,061
Net increase in cash and cash equivalents		2,077,480	1,204,622
Cash and cash equivalents at beginning of year		3,587,770	2,417,219
Currency translation differences		13,613	(34,071)
Cash and cash equivalents at end of the year	20	5,678,863	3,587,770

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Redco Properties Group Limited (the “Company”) was incorporated in the Cayman Islands on 14 July 2008 as an exempted company with limited liability under the Cayman Companies Law. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together with the Company, referred to as the “Group”) are principally engaged in property development, property investment, project management business and healthcare service in the People’s Republic of China (the “PRC”). The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”).

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and financial liabilities recognised for early redemption option which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

2.1.1 Accounting policies

(a) New and amended standard adopted by the Group

The Group has adopted the following new, revised and amended standards and interpretations to existing standards that have been issued and are effective for the Group’s accounting year beginning on or after 1 January 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HK (IFRIC) Int-22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 1 and HKAS 28	Annual Improvements 2014 – 2016 Cycle

The impact of the adoption of HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) are disclosed in Note 2.1.2.

Apart from aforementioned HKFRS 9 and HKFRS 15, the other standards did not have material impact on the Group’s accounting policies and did not require any adjustments.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Accounting policies (Continued)

- (b) The following new standards, amendments to standards and annual improvement have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) Int-23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Investment in Associates and Joint Ventures	1 January 2019
Amendments to HKFRSs	Annual Improvements 2015 – 2017 Cycle	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Raised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

HKFRS 16 “Leases”

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

Based on management’s initial assessment, the initial adoption of HKFRS 16 in the future will result in an increase in the right-of-use assets and the lease liabilities, which is not expected to result in a significant increase in both assets and liabilities in the consolidated balance sheet. The adoption will also front-load the expense recognition in the consolidated statement of profit and loss over the period of the leases, as a result of the combination of the interest expenses arising from the lease liabilities and the amortisation of the right-of-use assets as compared to the rental expenses under existing standard.

Date of adoption by the Group

It is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from aforementioned HKFRS 16, the directors of the Group are in the process of assessing the financial impact of the adoption of the above new standards and amendments to standards. The directors of the Group will adopt the new standards and amendments to standards when they become effective.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15

This note explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior period.

(a) Impact on the financial statements

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2017	HKFRS 9	HKFRS 15	1 January 2018 (Restated)
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance sheet (extract)				
Current assets				
Trade and other receivables and deposits	3,082,594	(31,915)	(700,000)	2,350,679
Contract assets			700,000	700,000
Current liabilities				
Receipts in advance	4,507,441	—	(4,507,441)	—
Contract liabilities	—	—	4,507,441	4,507,441
Reserves	3,672,089	(22,173)	—	3,649,916
Non-controlling interests	797,579	(9,742)	—	787,837



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(b) HKFRS 9 – impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 “Financial Instruments: Recognition and Measurement” that relate to the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The total impact on the Group’s retained earnings and non-controlling interests as at 1 January 2018 is as follows:

	31 December 2017 (HKAS 39) RMB’ 000	Increase in provision for impairment of other receivables RMB’ 000	1 January 2018 (HKFRS 9) RMB’ 000
Retained earnings	2,056,798	(22,173)	2,034,625
Non-controlling interests	797,579	(9,742)	787,837
	<u>2,854,377</u>	<u>(31,915)</u>	<u>2,822,462</u>

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 9 as compared to HKAS 39 that was previously in effect before the adoption of HKFRS 9 is as follows:

	As at 31 December 2018		
	Amounts without the adoption of HKFRS 9 RMB’ 000	Effects of the adoption of HKFRS 9 RMB’ 000	Amounts as reported RMB’ 000
Statement of profit or loss (extract)			
Administrative expenses	(405,876)	(18,345)	(424,221)
Profit attributable to:			
– Owners of the Company	1,008,839	(18,092)	990,747
– Non-controlling interest	305,934	(253)	305,681
	<u>1,314,773</u>	<u>(18,345)</u>	<u>1,296,428</u>



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(b) HKFRS 9 – impact of adoption (Continued)

Impairment of financial assets

The Group has four types of financial assets at amortised cost and contract assets subject to HKFRS 9's new expected credit loss model:

- Trade receivables
- Other receivables and deposits (excluding prepayments)
- Amounts due from joint ventures, associates and non-controlling interests
- Other financial assets carried at amortised cost
- Contract assets

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The Group makes estimates and assumptions concerning the futures which are discussed below:

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For amounts due from joint ventures, associates and non-controlling interests already in place at 1 January 2018, the Group had to assess the probability of default at the initial recognition of each amounts due from joint ventures, associates and non-controlling interests that would result in undue cost and effort. As permitted by HKFRS 9, the credit provision will be determined based on whether credit risk is low only at each reporting date, until the loan is derecognised.

For other receivables and deposits (excluding prepayments), the provision for impairment of RMB31,915,000 was recognised as at 1 January 2018.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(c) HKFRS 9 – accounting policies

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(ii) Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(c) HKFRS 9 – accounting policies (Continued)

(ii) Recognition and measurement (Continued)

Debt instruments (Continued)

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (OCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognised in 'other gains/(losses) – net'. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statement of comprehensive income within "other gains/(losses) – net" in the period in which it arises. Interest income from these financial assets is included in the "finance income".

Equity instruments

- The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established.
- Changes in the fair value of financial assets at fair value through profit or loss are recognised in "other gains/(losses), net" in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(c) HKFRS 9 – accounting policies (Continued)

(iii) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its other receivables and deposits carried at amortised cost and adopt three-stages approach to assess the impairment. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables and contract assets.

For other receivables and deposits, the Group allies a forward looking basis and the expected credit loss associated and adopted three-stages approach to assess the impairment.

(d) HKFRS 15 – impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group applied the modified retrospective approach to adopt HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(d) HKFRS 15 – impact of adoption (Continued)

The following table shows the adjustments recognised in the opening balance sheet on 1 January 2018:

	31 December 2017 (As previously stated under HKAS 18 and HKAS 11) RMB' 000	Reclassifications under HKFRS 15 RMB' 000	1 January 2018 (Restated under HKFRS 15) RMB' 000
Balance sheet (extract)			
<u>Current assets</u>			
Trade and other receivables and deposits	3,082,594	(700,000)	2,382,594
Contract assets	—	700,000	700,000
	<u> </u>	<u> </u>	<u> </u>
<u>Current liabilities</u>			
Receipts in advance	4,507,441	(4,507,441)	—
Contract liabilities	—	4,507,441	4,507,441
	<u> </u>	<u> </u>	<u> </u>

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 December 2018		
	Amounts without the adoption of HKFRS 15 RMB' 000	Effects of the adoption of HKFRS 15 RMB' 000	Amounts as reported RMB' 000
Balance sheet (extract)			
<u>Current assets</u>			
Trade and other receivables and deposits	4,071,544	(700,000)	3,371,544
Contract assets	—	700,000	700,000
	<u> </u>	<u> </u>	<u> </u>
<u>Current liabilities</u>			
Receipts in advance	7,169,457	(7,169,457)	—
Contract liabilities	—	7,169,457	7,169,457
	<u> </u>	<u> </u>	<u> </u>



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(d) HKFRS 15 – impact of adoption (Continued)

(i) Accounting for property development activities

In prior reporting periods, the Group accounted for property development activities when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession and not continuously as construction progresses.

The accounting policies were changed to comply with HKFRS 15. HKFRS 15 replaces the provisions of HKAS 18 Revenue (“HKAS18”) and HKAS 11 Construction contracts (“HKAS11”) that relate to the recognition, classification and measurement of revenue and costs.

Under HKFRS 15, revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred 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
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

(e) HKFRS 15 – accounting policies

(i) Accounting for property development activities and construction services

If control of the assets and services transfer over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the assets and services.

(ii) Accounting for costs to obtain a contract

Following the adoption of HKFRS 15, costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised.

(iii) Accounting for significant financing component

For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects of a financing component, if significant.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Effects of the adoption of HKFRS 9 and HKFRS 15 (Continued)

(f) HKFRS 15 – Presentation of assets and liabilities related to contracts with customers

The Group has also changed the presentation of the following amounts in the balance sheet to reflect the terminology of HKFRS 15:

- Contract assets in relation to sea reclamation service were previously included trade and other receivables and deposits (RMB700,000,000 as at 1 January 2018).
- Contract liabilities in relation to property sales contracts were previously included receipts in advance from customers (RMB4,507,441,000 as at 1 January 2018).

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 *Subsidiaries (Continued)*

2.2.1 *Consolidation (Continued)*

(a) **Business combinations** (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the business acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) **Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) **Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 *Investments accounted for using the equity method*

2.3.1 *Joint arrangements*

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investment in a joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to 'share of results of a joint venture' in profit or loss.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3.2 *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 *Investments accounted for using the equity method (Continued)*

2.3.2 *Associates (Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to ‘share of profit of investments accounted for using equity method, net’ in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interests in associates are recognised in the consolidated statement of profit or loss.

2.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

2.5 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company’s functional currency is Hong Kong dollars (“HK\$”), and the consolidated financial statements are presented in RMB, which is the Company’s and the Group’s presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within “finance income” and “finance costs”. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within “other gains/(losses), net”.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

2.5 Foreign currency translation(continue)

(c) Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- share capital is translated at the historical rate;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which cash income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Building	50 years
Leasehold improvement	shorter of the lease term or useful lives
Furniture and office equipment	3 to 5 years
Motor vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses), net" in the consolidated statement of profit or loss.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 *Investment properties*

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value. Where fair value of investment properties under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are presented in the consolidated statement of profit or loss.

2.8 *Goodwill*

Goodwill arises on the acquisition of a subsidiary and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.9 *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 *Properties under development for sale and completed properties for sale*

Properties under development for sale and completed properties held for sale are included in current assets at the lower of cost and net realisable value. Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights, borrowing costs on qualifying assets and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Properties under development for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 *Non-current assets held for sale*

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal company classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal company classified as held for sale are presented separately from the other assets in the consolidated balance sheet. The liabilities of a disposal company classified as held for sale are presented separately from other liabilities in the consolidated balance sheet.

2.12 *Financial assets - accounting policies applied since 1 January 2018*

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) *Recognition and measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets - accounting policies applied since 1 January 2018 (Continued)

(b) Recognition and measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (OCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognised in 'other gains/(losses) – net'. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statement of comprehensive income within "other gains/(losses) – net" in the period in which it arises. Interest income from these financial assets is included in the "finance income".



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets - accounting policies applied since 1 January 2018 (Continued)

(b) Recognition and measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "other gains/(losses), net" in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For contract assets and trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables and deposits, the Group applies a forward looking basis and the expected credit losses associated and adopted three-stages approach to assess the impairment.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets

2.13 Financial assets - accounting policies applied until 31 December 2017

Until 31 December 2017 the Group classifies its financial assets as loans and receivables.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

(a) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(b) Subsequent measurement

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. Subsequent to the initial recognition, loans and receivables were subsequently carried at amortised cost using the effective interest method.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continue)

2.13 Financial assets - accounting policies applied until 31 December 2017(continue)

(c) Impairment

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists. For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Bank deposits which are restricted to use are classified as “restricted cash”. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See Note 3.1(iv) for the description of the impairment policies. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 Senior notes

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the debt component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption option components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and a joint venture operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, joint ventures and associates, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties and services performed in the ordinary course of the Group's companies. The Group recognises revenue when control of goods or services transfers to the customers.

(a) Sales of properties and provision of services

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the assets and services transfer over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the assets and services.

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 reporting period as a percentage of total estimated costs for each contract.

For 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 present right to payment and the collection of the consideration is probable.

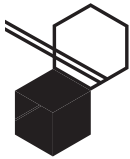
In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

For provision of construction services, the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

(b) Sales of goods

Revenue are recognised when control of the product to has transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because the passage of time is required before the payment is due.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme (“MPF Scheme”) in Hong Kong. The assets of the MPF Scheme are held in a separate trustee-administered fund. Both the Group and the employees are required to contribute 5% of the employees relevant income up to a maximum of HK\$1,500 per employee per month.

The Group also participates in an employee social security plan (the “Plan”) as required by the regulations in the PRC. The Group is required to make welfare contributions to the Plan which is based on certain percentage of the employees’ relevant income.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Bonus plans

The expected cost of bonus plan is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.27 Financial guarantee liabilities

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm’s length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management’s judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within general and administrative expenses.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 *Financial guarantee liabilities (continue)*

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

2.28 *Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

2.29 *Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and cash flow and fair value interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management of each individual entity within the Group.

(i) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk primarily with respect to HK\$ and United States dollars ("US\$").

The Group's assets and liabilities, and transactions arising from its operations primarily do not expose it to material foreign exchange risk. Other than certain bank balances and bank borrowings, the Group's assets and liabilities are primarily denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB. The Group does not hedge its exposure to the foreign currencies.

As at 31 December 2018 and 2017, certain of the Group's cash and bank balances were denominated in HK\$, US\$ and Australian Dollar ("AUD"), details of which have been disclosed in Note 20.

As at 31 December 2018 and 2017, the Group was exposed to foreign exchange risk primarily with respect to the potential effects on profit or loss included the impacts from translation in intercompany balances which are not denominated in functional currency of respective group companies.

RMB depreciation against HK\$ and US\$ during the year is the major reason for the exchange differences recognised by the Group. Further appreciation of HK\$ and US\$ against RMB will affect the Group's financial position and results of operations.



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(i) Foreign exchange risk (Continued)

The following table shows that, if RMB had strengthened/weakened by 5% against HK\$, with all other variables held constant, post-tax profit for the year change, mainly as a result of foreign exchange losses/gains on translation of RMB denominated amounts due from/(to) fellow subsidiaries in group entities which their functional currencies are HK\$.

	2018 RMB' 000	2017 RMB' 000
Post-tax profit (decrease)/increase		
RMB strengthened by 5%	77,344	(4,393)
RMB weakened by 5%	(77,344)	4,393

The US\$ denominated borrowings (Note 24) is in the Company which functional currency is HK\$, since HK\$ is pegged to US\$, there is no significant foreign exchange risk with respect to US\$ to the Company.

(ii) Cash flow and fair value interest rate risks

Except for bank deposits with variable interest, the Group has no other significant interest-bearing assets.

The Group's exposure to changes in interest rates is mainly attributable to its borrowings from bank. Bank borrowings of variable rates expose the Group to cash flow interest rate risk. The senior notes at a fixed rate expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 24.

Management does not anticipate significant impact to the senior notes resulted from the changes in market interest rates. Moreover, given the stability of the interest rate in the recent financial market, in the opinion of the directors, the exposure of the senior notes to fair value interest rate risk is considered to be low. Therefore no sensitivity analysis is performed.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(ii) Cash flow and fair value interest rate risks (Continued)

At 31 December 2018 and 2017, if interest rates on borrowings at floating rates had been 100 basis points higher/lower with all other variables held constant, the post-tax profit and capitalised interest for the years ended 31 December 2018 and 2017 would have changed as follows:

	2018 RMB' 000	2017 RMB' 000
Post-tax profit (decrease)/increase		
– 100 basis points higher	(3,126)	(1,368)
– 100 basis points lower	3,126	1,368
Capitalised interest increase/(decrease)		
– 100 basis points higher	60,170	46,766
– 100 basis points lower	(60,170)	(46,766)

(iii) Liquidity risk

In managing the liquidity risk, the Group regularly and closely monitors its current and expected liquidity requirements to maintain its rolling cash flow at a level which is considered adequate by the Group to finance the Group's operations and to maintain sufficient cash to meet its business development requirements. The management will closely monitor the compliance stated of the covenants for all borrowings.

Management has periodically prepared cash flow projections and the Group has a number of alternative plans to offset the potential impact on the Group's business development and current operation, should there be circumstances that the anticipated cash flow may be affected by any unexpected changes in the PRC economic conditions. The Company's directors consider that the Group will be able to maintain sufficient financial resources to meet its needs. Unused facilities of the Group as of 31 December 2018 and 2017 have been disclosed in Note 24.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dates to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	On demand RMB' 000	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
At 31 December 2018						
Term loans subject to repayment on demand clause	150,268	—	—	—	—	150,268
Bank and other borrowings and interest payments	—	4,405,798	3,221,994	526,503	—	8,154,295
Senior notes and interest payments	—	2,266,017	1,517,228	—	—	3,783,245
Trade and other payables (excluding non-financial liabilities)	—	5,508,776	—	—	—	5,508,776
Amounts due to non-controlling interests	2,123,659	—	—	—	—	2,123,659
Amounts due to joint ventures	23,756	—	—	—	—	23,756
Amount due to an associate	66,000	—	—	—	—	66,000
Financial guarantees (Note 31)	—	2,056,505	1,785,421	2,085,298	5,580	5,932,804
	<u>2,363,683</u>	<u>14,237,096</u>	<u>6,524,643</u>	<u>2,611,801</u>	<u>5,580</u>	<u>25,742,803</u>

	On demand RMB' 000	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
At 31 December 2017						
Term loans subject to repayment on demand clause	163,836	—	—	—	—	163,836
Bank and other borrowings and interest payments	—	1,732,358	2,319,812	1,965,593	—	6,017,763
Senior notes and interest payments	—	1,747,551	—	—	—	1,747,551
Trade and other payables (excluding non-financial liabilities)	—	1,788,511	—	—	—	1,788,511
Amounts due to non-controlling interests	116,414	—	—	—	—	116,414
Amounts due to joint ventures	140,209	—	—	—	—	140,209
Financial guarantees (Note 31)	—	1,401,594	2,542,389	2,100,581	7,874	6,052,438
	<u>420,459</u>	<u>6,670,014</u>	<u>4,862,201</u>	<u>4,066,174</u>	<u>7,874</u>	<u>16,026,722</u>



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

The table below analyses the term loans with a repayment on demand clause based on agreed repayment schedules set out in the loan agreements. The amounts include interest payments computed using contractual rates.

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Total RMB' 000
31 December 2018	31,698	130,479	—	162,177
31 December 2017	29,048	28,236	117,182	174,466

(iv) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, trade receivables, other receivables, contract assets, other financial assets at amortised costs and amounts due from joint ventures, associates and non-controlling interests.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other receivables, contract assets, other financial assets at amortised costs and amounts due from joint ventures, associates and non-controlling interests represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group has policies in place to ensure that sales are made to customers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables and contract assets to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

All the bank deposits are placed with banks with sound credit ratings to mitigate the risk. The Group does not hold any collateral as security.

The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 70% of the total purchase price of the property. Detailed disclosure of these guarantees is made in Note 31(a). If a purchaser defaults on the payment of its mortgage loan during the guarantee period, the bank holding the guarantee may demand the Group to repay the outstanding amount under the loan and any interest accrued thereon. Under such circumstances, the Group is able to retain the customers' deposit and resell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is largely mitigated.



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(iv) Credit risk (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of individual property owner or the borrower
- significant increases in credit risk on other financial instruments of the individual property owner or the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

(a) Credit risk of cash and cash equivalents and restricted cash

To manage this risk arising from cash and bank deposits, the Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss of cash and bank balances is close to zero.

(b) Credit risk of trade receivables and contract assets

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and contract assets. The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. The expected losses rate is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates.

The Group monitors the outstanding debts from its customers individually. Based on historical repayment trend, there is no correlation between the risk of default occurring and the collection past-due status as long as there is no significant change in the credit rating of the customers. The Group's loss arising from risk of default and time value of money is negligible.



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(iv) Credit risk (Continued)

(c) Credit risk of other receivables and deposits (excluding prepayments)

The Group assess on a forward looking basis the expected credit losses associated with its other receivables and deposits carried at amortised cost and adopted three-stages approach to assess the impairment.

As at 31 December 2018, the loss allowance provision was RMB50,260,000 (1 January 2018: RMB31,915,000).

(d) Credit risk of amounts due from joint ventures, associates and non-controlling interests

The Group assesses on a forward looking basic the expected credit losses associated with its amounts due from joint ventures, associates and non-controlling interests. Carried at amortised cost and adopted three-stages approach to assess the impairment. Those parties have a low risk of default and a capacity to meet contractual cash flows. The expected losses rate is minimal, given there is no history of significant defaults and insignificant impact from forward-looking estimates.

3.2 Capital risk management

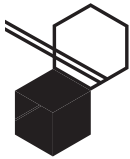
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustment to it in light of changes in economic condition.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or to obtain bank and other borrowings.

The Group monitors capital on the basis of the gearing ratio. Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balance (including cash and cash equivalent and restricted cash). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 RMB' 000	2017 RMB' 000
Total borrowings (Note 24)	11,059,681	7,243,219
Less: Cash and cash equivalents and restricted cash (Note 20)	(7,865,002)	(4,905,512)
Net debt	3,194,679	2,337,707
Total equity	6,665,418	4,609,300
Total capital	9,860,097	6,947,007
Gearing ratio	32%	34%



3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair values of the trade receivables, other receivables and deposits, cash and cash equivalents, restricted cash, amounts due from non-controlling interests, amounts due from joint ventures, amounts due from associates, trade and other payables, amounts due to non-controlling interests and amounts due to joint ventures at 31 December 2018 approximate their carrying amounts due to their short term maturities.

See Note 14 for disclosures of the investment properties that is measured at fair value.

All the resulting fair value estimates are included in level 3 of the fair value hierarchy.

There were no transfers among levels 1, 2 and 3 during the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Valuation of investment properties

The Group carries its investment properties at fair value with changes in the fair value recognised in the consolidated statement of profit or loss. The fair value of investment properties were determined by using valuation technique and management updates their assessment of the fair value of the investment properties, taking into account the key valuation assumptions. Details of the judgments and assumptions have been disclosed in Note 14.

4.2 Classification of investments

The Group made investments that involved complex terms and arrangements during the year. Judgement is required in determining the appropriate classification for these investments including assessing the relevant activities of the investee companies and its decisions making process on those activities that involving the Group, if any and its other investors, the rights and power of the Group and other investors on the investee companies and the Group's returns from the investments. Different conclusions around these judgements may materially impact how these investments presented and measured in the consolidated financial statements of the Group.



4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.3 Provision for impairment of properties held for sale and properties under development

The management makes provision for impairment of properties held or under development for sale based on the estimate of the recoverable amount of the properties. Given the volatility of the property market in the PRC, the actual recoverable amount may be higher or lower than the estimate made as at the end of the reporting period. Any increase or decrease in the provision would affect the Group's operating performance in future years.

4.4 Current taxation and deferred taxation

The Group is subject to taxation in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are transactions and calculations for which the ultimate tax determination is uncertain (for example, certain expenses such as entertainment and advertising expenses may not be finally deductible) during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

4.5 Land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land cost, borrowing costs and all property development expenditures.

The subsidiaries of the Group engaging in property development business in the PRC are subject to land appreciation taxes, which have been included in the income tax expenses. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and provisions of land appreciation taxes in the period in which such determination is made.



5 REVENUE AND SEGMENT INFORMATION

The Executive Directors have been identified as the CODM. Management determines the operating segments based on the Group's internal reports, which are submitted to the Executive Directors for performance assessment and resources allocation.

The Executive Directors consider the business from a geographical perspective and assess the performance of property development in four reportable operating segments, namely Greater Western Taiwan Straits Economic Zone, Central and Western Regions, Bohai Economic Rim, Pearl River Delta Region and Others. The Group's construction and sea reclamation services and hotel operations are considered together with the property development segments and included in the relevant geographic operating segment. "Others" segment represents provision of design services to group companies, corporate support functions, property management services (services provided to both internal or external customers) and trading of construction materials.

The Executive Directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of depreciation, share of profit of investments accounted for using the equity method, net, finance income, finance costs and income tax expense. Other information provided, except as noted below, to the Executive Directors is measured in a manner consistent with that in the consolidated financial statements.



5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Greater Western Taiwan Straits Economic Zone RMB' 000	Central and Western Regions RMB' 000	Bohai Economic Rim RMB' 000	Pearl River Delta Region RMB' 000	Others RMB' 000	Total RMB' 000
Year ended						
31 December 2018						
Revenue from contracts with contracts						
– recognised at a point in time	1,634,976	602,983	4,177,648	3,510	278,387	6,697,504
– recognised over time	701	–	34,215	–	15,712	50,628
Less: Inter-segment revenue	–	–	–	–	(12,201)	(12,201)
Revenue (from external customers)	1,635,677	602,983	4,211,863	3,510	281,898	6,735,931
Segment results	521,751	59,704	1,688,661	(38,562)	(108,582)	2,122,972
Depreciation	(2,877)	(1,907)	(1,712)	(636)	(3,199)	(10,331)
Operating profits/(losses)	518,874	57,797	1,686,949	(39,198)	(111,781)	2,112,641
Share of profit of investments accounted for using the equity method, net	78,064	(4,903)	(5,483)	–	9,790	77,468
Finance income	32,783	33,965	16,747	1,186	10,344	95,025
Finance costs	(3,936)	–	–	–	(67,726)	(71,662)
Income tax expense	(208,317)	40,629	(730,546)	28,832	(47,642)	(917,044)
Profit/(loss) for the year	417,468	127,488	967,667	(9,180)	(207,015)	1,296,428
At 31 December 2018						
Total segment assets	9,710,114	8,631,983	11,979,372	1,281,252	3,374,164	34,976,885
Other unallocated corporate assets						169,421
Total assets						35,146,306
Investments accounted for using the equity method	347,123	217,222	–	–	135,949	700,294
Additions to:						
Property, plant and equipment	4,977	4,512	9,094	648	171,319	190,550
Total segment liabilities	(6,164,843)	(4,601,789)	(9,108,750)	(847,195)	(7,758,311)	(28,480,888)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Greater Western Taiwan Straits Economic Zone RMB' 000	Central and Western Regions RMB' 000	Bohai Economic Rim RMB' 000	Pearl River Delta Region RMB' 000	Others RMB' 000	Total RMB' 000
Year ended						
31 December 2017						
Total revenue	1,719,155	2,731,163	1,829,283	449,731	18,000	6,747,332
Less: Inter-segment revenue	—	—	—	—	(13,265)	(13,265)
Revenue (from external customers)	1,719,155	2,731,163	1,829,283	449,731	4,735	6,734,067
Segment results	183,385	702,674	634,102	106,165	(78,516)	1,547,810
Depreciation	(2,512)	(438)	(1,283)	(585)	(1,779)	(6,597)
Operating profits/(losses)	180,873	702,236	632,819	105,580	(80,295)	1,541,213
Share of profit of investments accounted for using the equity method, net	77,822	—	—	—	5,048	82,870
Finance income	10,461	21,904	9,046	1,052	2,266	44,729
Finance costs	—	—	—	—	(70,945)	(70,945)
Income tax expense	(80,269)	(284,012)	(176,731)	(9,837)	(56,886)	(607,735)
Profit/(loss) for the year	<u>188,887</u>	<u>440,128</u>	<u>465,134</u>	<u>96,795</u>	<u>(200,812)</u>	<u>990,132</u>
At 31 December 2017						
Total segment assets	3,380,938	4,648,435	8,948,799	1,305,368	1,587,160	19,870,700
Other unallocated corporate assets						<u>1,307</u>
Total assets						<u>19,872,007</u>
Investments accounted for using the equity method	<u>751,436</u>	<u>188,783</u>	<u>—</u>	<u>213</u>	<u>94,809</u>	<u>1,034,521</u>
Additions to: Property, plant and equipment	<u>7,707</u>	<u>845</u>	<u>1,175</u>	<u>1,123</u>	<u>843</u>	<u>11,693</u>
Total segment liabilities	<u>(2,723,517)</u>	<u>(1,435,831)</u>	<u>(5,867,006)</u>	<u>(515,554)</u>	<u>(4,720,799)</u>	<u>(15,262,707)</u>



5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) The Group revenue consists of the following:

	2018 RMB' 000	2017 RMB' 000
Sales of properties	6,419,117	6,324,976
Construction and sea reclamation services	34,215	378,443
Project management	3,952	30,648
Trading of construction materials	277,946	—
Healthcare service	701	—
	<u>6,735,931</u>	<u>6,734,067</u>

(b) Analysis of the Group revenue by geographical market is as follows:

	2018 RMB' 000	2017 RMB' 000
PRC	6,460,872	6,734,067
Hong Kong	<u>275,059</u>	—
	<u>6,735,931</u>	<u>6,734,067</u>

During the year ended 31 December 2018, revenue recognised in relation to the sales of properties to a customer (the "Customer A") accounted for 12.4% of the Group's revenue. Customer A is a group of companies under common control by two independent third party individuals and not connected with the Group. These individuals also had non-controlling interests in certain subsidiaries of the Group. Both their interests and the subsidiaries are not significant to the Group.

Customer A, who is also an investment partner of the Group for a potential property development project in the PRC, has balance with the Group as at 31 December 2018 with further details in Note 19(b) and 25(b).

(c) Details of contract assets is as follows:

	2018 RMB' 000	2017 RMB' 000
Accrued contract revenue	<u>700,000</u>	—

As of 31 December 2018, the contract assets of RMB700,000,000 are related to sea reclamation service provided to the PRC government and were previously included in trade and other receivables and deposits (Note 19(d)).

(d) Unsatisfied contracts related to the sales of properties

As at 31 December 2018, approximately RMB7,471,196,000 of unsatisfied performance obligations resulting from the property sales are expected to be recognised within twelve months period, whereas approximately RMB 5,130,385,000 of unsatisfied performance obligations resulting from the property sales are expected to be recognised after twelve months.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and general and administrative expenses are analysed as follows:

	2018 RMB' 000	2017 RMB' 000
Auditor's remuneration		
– Audit services	4,564	3,764
– Non-audit services	779	519
Cost of properties sold	4,031,933	4,851,390
Cost of construction and sea reclamation service	34,085	97,768
Cost of project management and property investment	334	—
Cost of healthcare service	93	—
Cost of construction material sold	247,882	—
Depreciation of property, plant and equipment (Note 11)	9,930	6,597
Employee benefit expenses (Note 8)	242,452	146,193
Entertainment	29,896	20,285
Marketing and advertising costs	93,481	129,559
Operating lease payments	2,290	6,099
Office and travelling expenses	77,766	45,202
Business taxes and surcharges	33,884	107,252
Land use and real estate taxes	1,024	8,088
Legal and professional fees	85,781	38,971
Donation	1,130	630
Impairment loss on other receivables	18,345	—
Others	40,282	24,235
Total cost of sales, selling and marketing expenses and general and administrative expenses	<u>4,955,931</u>	<u>5,486,552</u>

7 OTHER GAINS/(LOSSES), NET

	2018 RMB' 000	2017 RMB' 000
Gain on disposal of a subsidiary	—	1,566
Gain on disposal of assets and liabilities held for sales (Note 29)	304,271	—
Gain on disposal of investment in a joint venture (Note 15(d))	—	11,752
Remeasurement gains on interests in investments accounted for using the equity method (Note 28)	14,999	—
Gains on bargain purchase arising from acquisition of subsidiaries	—	1,150
Gain on disposal of property, plant and equipment	351	226
Exchange losses	(126,423)	(33,939)
Realised gain on a foreign exchange forward contract	50,475	—
Penalties income	2,804	2,905
Others	1,992	537
	<u>248,469</u>	<u>(15,803)</u>



8 EMPLOYEE BENEFIT EXPENSES

	2018 RMB' 000	2017 RMB' 000
Salaries and allowances	218,186	124,843
Sale commission and bonuses	30,826	32,226
Pension costs (Note a)	24,655	14,452
Other staff welfare	29,499	14,089
	<u>303,166</u>	<u>185,610</u>
Less: Capitalised in properties under development	(60,714)	(39,417)
	<u>242,452</u>	<u>146,193</u>

(a) Pension costs – Defined Contribution Plan

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income, subject to a ceiling of HK\$1,500 per month per head.

Details of the retirement scheme contributions, which have been dealt with in the consolidated statement of profit or loss are as follows:

	2018 RMB' 000	2017 RMB' 000
Gross scheme contributions	24,655	14,452
Less: capitalised in properties under development	(5,164)	(3,425)
	<u>19,491</u>	<u>11,027</u>



8 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include three (2017: three) directors whose emoluments are reflected in the analysis presented in Note 37. The emoluments payable to the remaining two (2017: two) individuals during the year are as follows:

	2018 RMB' 000	2017 RMB' 000
Salaries and other short-term benefits	2,934	3,111
Retirement scheme contributions	61	50
	<u>2,995</u>	<u>3,161</u>

The emoluments fall within the following bands:

	2018	2017
HK\$1,000,001 to HK\$2,000,000 (equivalent to RMB865,201 to RMB1,730,400)	2	2

9 FINANCE INCOME AND COSTS

	2018 RMB' 000	2017 RMB' 000
Finance income from bank deposits	32,512	19,012
Finance income from a loan to an associate (Note 15(a))	25,000	6,250
Finance income from loans to non-controlling interests (Note 33)	32,883	19,467
Finance income from a loan to a third party (Note 19)	4,630	—
	<u>95,025</u>	<u>44,729</u>
Finance costs on bank and other borrowings	719,022	351,920
Finance costs on loans from non-controlling interests	20,938	—
Less: finance costs capitalised in qualifying assets	<u>(681,580)</u>	<u>(339,006)</u>
	58,380	12,914
Finance charges on early redemption of senior notes (Note 24)	13,282	58,031
	<u>71,662</u>	<u>70,945</u>
Weighted average interest rate on capitalised borrowings (per annum)	<u>7.13%</u>	<u>7.49%</u>



10 INCOME TAX EXPENSE

Subsidiaries established and operating in the PRC are subject to PRC enterprise income tax at the rate of 25% for the year ended 31 December 2018 (2017: 25%).

No provision has been made for Hong Kong profits tax as the companies in Hong Kong did not generate any assessable profits for the year ended 31 December 2018 (2017: Nil).

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures.

	2018 RMB' 000	2017 RMB' 000
Current income tax		
PRC corporate income tax	747,694	392,597
PRC land appreciation tax	381,902	179,038
Deferred income tax (Note 16)	(212,552)	36,100
	<u>917,044</u>	<u>607,735</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise by applying the statutory tax rate in the PRC to profits of the group companies as follows:

	2018 RMB' 000	2017 RMB' 000
Profit before income tax	2,213,472	1,597,867
Calculated at PRC Corporate income tax rate of 25%	553,368	399,467
Expenses not deductible for tax purpose	65,471	32,078
Income not subject to taxation	(41,855)	(26,418)
Unrecognised tax losses	15,548	8,947
Provision for land appreciation tax	381,902	179,038
Tax effect on land appreciation tax	(95,476)	(44,760)
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	38,086	59,383
Income tax expense	<u>917,044</u>	<u>607,735</u>



11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB' 000	Furniture and office equipment RMB' 000	Motor vehicles RMB' 000	Buildings RMB' 000	Total RMB' 000
Year ended 31 December 2017					
Opening net book amount	19,755	6,591	5,077	—	31,423
Additions	4,702	4,387	2,604	—	11,693
Acquisitions of subsidiaries	—	357	597	—	954
Disposals	—	(80)	(638)	—	(718)
Disposal of a subsidiary	—	(4)	—	—	(4)
Depreciation	(1,457)	(2,346)	(3,028)	—	(6,831)
Assets classified as held for sale (Note 21)	—	(134)	(332)	—	(466)
Exchange differences	(1)	(5)	444	—	438
Closing net book amount	<u>22,999</u>	<u>8,766</u>	<u>4,724</u>	<u>—</u>	<u>36,489</u>
As at 31 December 2017					
Cost	32,643	21,672	19,147	—	73,462
Accumulated depreciation	(9,644)	(12,906)	(14,423)	—	(36,973)
Net book amount	<u>22,999</u>	<u>8,766</u>	<u>4,724</u>	<u>—</u>	<u>36,489</u>
Year ended 31 December 2018					
Opening net book amount	22,999	8,766	4,724	—	36,489
Additions	10,019	7,107	5,673	167,751	190,550
Acquisitions of subsidiaries (Note 28)	—	3,657	68	—	3,725
Transfer from an associate (Note 28)	68	49	—	—	117
Transfer from joint ventures (Note 28)	515	26	512	—	1,053
Disposals	(87)	(32)	(177)	—	(296)
Depreciation	(1,437)	(3,917)	(3,076)	(1,901)	(10,331)
Exchange differences	—	2	(9)	—	(7)
Closing net book amount	<u>32,077</u>	<u>15,658</u>	<u>7,715</u>	<u>165,850</u>	<u>221,300</u>
As at 31 December 2018					
Cost	43,215	31,863	22,708	167,751	265,537
Accumulated depreciation	(11,138)	(16,205)	(14,993)	(1,901)	(44,237)
Net book amount	<u>32,077</u>	<u>15,658</u>	<u>7,715</u>	<u>165,850</u>	<u>221,300</u>



11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charges were capitalised or expensed in the following categories in the consolidated balance sheet and the consolidated statement of profit or loss:

	2018 RMB' 000	2017 RMB' 000
Properties under development for sale	401	234
General and administrative expenses (Note 6)	9,930	6,597
	<u>10,331</u>	<u>6,831</u>

12 GOODWILL

	RMB' 000
Year ended 31 December 2017	
Opening net book amount	49,535
Impairment of goodwill	(49,535)
Closing net book amount	<u>—</u>
At 31 December 2017	
Cost	138,659
Accumulated impairment	(138,659)
Net book amount	<u>—</u>
Year ended 31 December 2018	
Opening net book amount	—
Impairment of goodwill	—
Closing net book amount	<u>—</u>
At 31 December 2018	
Cost	—
Accumulated impairment	—
Net book amount	<u>—</u>



13 SUBSIDIARIES

(a) Details of the principal subsidiaries at 31 December 2018 are set out below:

Name of companies		Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)
力高地產控股有限公司	Redco Properties Holdings Limited	The British Virgin Islands ("BVI")	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar and 1 ordinary share of nil consideration, US\$1	100%	100%	—
力創國際發展有限公司	Power Creation International Development Limited	BVI	Limited liability company	Investment holding	100 ordinary shares of 1 US dollar each, US\$100	—	100%	—
利達集團有限公司	Maxprofit Globe Holdings Limited	BVI	Limited liability company	Investment holding	100 ordinary shares of 1 US dollar each, US\$100	—	100%	—
力泉國際投資有限公司	Power Spring International Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
盛高置業投資有限公司	Top Thrive Real Estates Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
創高環球投資有限公司	Top Creation Worldwide Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
偉力國際發展有限公司	Wei Li International Developments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
盛業國際投資有限公司	Shengye International Investments Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
基業國際投資有限公司	Jiye International Investments Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
力高集團(香港)有限公司	Redco Holdings (Hong Kong) Co. Limited	Hong Kong	Limited liability company	Investment holding	100,000 ordinary shares of 1 HK dollar each, HK\$100,000	—	100%	—
力盛國際投資有限公司	Power Thrive International Investment Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
力高投資(國際)有限公司	Redco Investment (International) Company Limited	Hong Kong	Limited liability company	Investment holding	10,000 ordinary shares of 1 HK dollar each, HK\$10,000	—	50% (Note (i))	50%
興達國際實業有限公司	Bloom Trend International Industrial Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—



13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies		Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)
力高實業投資有限公司	Redco Industrial Investment Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港御高投資有限公司	Hong Kong Royal Loft Investments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港濱江實業有限公司	Hong Kong Bingjiang Industrial Limited	Hong Kong	Limited liability company	Investment holding	150,000,000 ordinary shares of 1 HK dollar each, HK\$150,000,000	—	100%	—
香港榮力發展有限公司	Hong Kong Wing Power Developments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港力宏投資有限公司	Hong Kong Power Profit Investments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港盛業投資有限公司	Hong Kong Shengye Investments Company Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港基業控股有限公司	Hong Kong Jiye Holdings Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
江西萬和房地產開發有限公司	Jiangxi Man Wo Property Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$300,000,000 Paid up HK\$300,000,000	—	100%	—
江西力高房地產開發有限公司	Jiangxi Redco Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
江西崇德房地產開發有限公司	Jiangxi Chong De Real Estate Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$200,000,000 Paid up HK\$200,000,000	—	100%	—
江西政力房地產開發有限公司	Jiangxi Zhengli Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB200,000,000 Paid up RMB200,000,000	—	51%	49%
江西力達房地產開發有限公司	Jiangxi Lida Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	78%	22%
江西怡居房地產開發有限公司	Jiangxi Yiju Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB80,000,000 Paid up RMB80,000,000	—	51%	49%



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies		Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)
江西力高旅遊文化產業有限公司	Jiangxi Redco Travel Cultural Real Estate Co., Ltd	PRC	Limited liability company	Investment holdings in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
江西納裕實業有限公司	Jiangxi Nayu Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB12,000,000 Paid up RMB12,000,000	—	51%	49%
南昌欣榮房地產開發有限公司	Nanchang Xinrong Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	30% (Note (ii))	70%
江西力高國誠地產開發有限公司	Jiangxi Redco Guocheng Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	20% (Note (iv))	80%
江西城高房地產開發有限公司	Jiangxi Chenggao Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB1,000,000	—	80%	20%
江西力帆房地產開發有限公司	Jiangxi Lifan Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
江西資力房地產開發有限公司	Jiangxi Zili Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	51%	49%
南昌高遠房地產開發有限公司	Nanchang Gaoyuan Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	90%	10%
江西力瑞房地產開發有限公司	Jiangxi Lirui Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up nil	—	51%	49%
江西生命陽光城投資股份有限公司	Jiangxi Life Sunshine City Investment Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	100%	—
上海力高瀾湖實業發展有限公司	Shanghai Redco Lanhu Industry Development Co., Ltd.	PRC	Limited liability company	Investment holdings in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
寧波力卓置業有限公司	Ningbo Lizhuo Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	46.3% (Note (vi))	53.7%
寧波余姚晟明房地產開發有限公司	Ningbo Yu Yao Sheng Ming Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB166,000,000 Paid up RMB163,340,000	—	32.5% (Note (vi))	67.5%



13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies	Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)	
寧波余姚晟業機器人科技有限公司	Ningbo Yu Yao Sheng Ye Machinery Technology Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB60,600,000 Paid up RMB60,000,000	—	32.5% (Note (vi))	67.5%
寧波余姚雲晟機器人科技有限公司	Ningbo Yu Yao Yun Sheng Machinery Technology Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB98,560,000	—	32.5% (Note (vi))	67.5%
南通市旭高置業有限公司	Nantong Xugao Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered US\$163,270,000 Paid up US\$163,270,000	—	49% (Note (iii))	51%
蘇州雲彩鴻佑實業有限公司	Suzhou Yuncai Hongye Industry Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	49% (Note (vii))	51%
力高(天津)地產有限公司	Redco (Tianjin) Real Estate Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$490,000,000 Paid up HK\$490,000,000	—	100%	—
天津力高宏業投資有限公司	Tianjin Redco Hongye Investment Co., Ltd.	PRC	Wholly owned foreign enterprise	Investment holdings in the PRC	Registered US\$298,000,000 Paid up US\$298,000,000	—	100%	—
天津力高基業有限公司	Tianjin Redco Jiye Co., Ltd.	PRC	Wholly owned foreign enterprise	Investment holdings in the PRC	Registered RMB 1,217,064,630 Paid up RMB 1,217,064,630	—	100%	—
天津力高興業文化傳播有限公司	Tianjin Redco Xingye Cultural Dissemination Co., Ltd.	PRC	Wholly owned foreign enterprise	Investment holdings in the PRC	Registered RMB600,000,000 Paid up RMB593,793,509	—	100%	—
天津市力高偉盛實業有限公司	Tianjin Redco Weisheng Industry Development Company Limited	PRC	Limited liability company	Investment holdings in the PRC	Registered RMB26,666,700 Paid up nil	—	37.5% (Note (viii))	62.5%
天津力高大道置業發展有限公司	Tianjin Redco Dadao Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB30,000,000 Paid up RMB 30,000,000	—	48% (Note (viii))	52%
天津博瑞房地產開發有限公司	Tianjin Borui Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB40,000,000 Paid up RMB40,000,000	—	22.5% (Note (ix))	—
煙台力高置業有限公司	Yantai Redco Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered US\$101,000,000 Paid up US\$101,000,000	—	100%	—
山東力高江浩房地產有限公司	Shandong Redco Jianghao Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies	Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)	
山東新廣友置業有限公司	Shandong Xin Guangyou Properties Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB36,734,600 Paid up RMB36,734,600	—	51%	49%
濟南力高偉盛地產開發有限公司	Jinan Redco Weisheng Property Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered RMB100,000,000 Paid up RMB 100,000,000	—	80%	20%
山東嘉力置業有限公司	Shandong Jiali Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	80%	20%
山東力高錦盛基業房地產開發有限公司	Shandong Redco Jinsheng Jiye Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up nil	—	100%	—
山東力高凱力房地產有限公司	Shandong Redco Kaili Real Estate Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered US\$23,529,400 Paid up US\$20,000,000	—	85%	15%
濟南東風置業有限公司	Jinan Dongfeng Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	90%	10%
山東力高天潤房地產有限公司	Shandong Redco Tianrun Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	60%	40%
力高(中國)地產有限公司	Redco (China) Real Estate Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered HK\$100,000,000 Paid up HK\$100,000,000	—	100%	—
泉州麗興房地產開發有限公司	Quanzhou Lixing Real Estate Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered RMB30,000,000 Paid up RMB30,000,000	—	33% (Note (xi))	67%
泉州力投房地產開發有限公司	Quanzhou Litou Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
咸陽力高房地產有限公司	Xianyang Redco Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	70%	30%
咸陽樺洋里置業有限公司	Xianyang Huayangli Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB 3,000,000 Paid up RMB 3,000,000	—	30% (Note (xii))	—
長豐聯華置業有限公司	Changfeng Lianhua Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,750,000 Paid up RMB50,750,000	—	80%	20%



13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies		Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)
合肥力高宏業地產開發有限公司	Hefei Redco Hongye Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
合肥力高偉盛地產開發有限公司	Hefei Redco Weisheng Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	80%	20%
合肥力城置業有限公司	Hefei Licheng Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	70%	30%
合肥磐瑞置業有限公司	Hefei Panrui Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
合肥智越置業有限公司	Hefei Zhiyue Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
合肥同錦置業有限公司	Hefei Tongzhu Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up nil	—	100%	—
深圳興居貿易有限公司	Shenzhen Xingju Trading Co., Ltd.	PRC	Limited liability company	Trading in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	100%	—
深圳市今典設計顧問有限公司	Shenzhen Jindian Design Consulting Co., Ltd.	PRC	Limited liability company	Construction design consulting in the PRC	Registered RMB500,000 Paid up RMB500,000	—	100%	—
深圳創信工程造價諮詢有限公司	Shenzhen Chuangxin Construction Cost Consulting Co., Ltd.	PRC	Limited liability company	Construction cost consulting in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	100%	—
深圳市力高大道置業有限公司	Shenzhen Redco Dadao Real Estate Co. Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	51%	49%
深圳力高偉力實業發展有限公司	Shenzhen Redco Weili Shiye Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	100%	—
深圳市力高宏業新興產業服務有限公司	Shenzhen Redco Hongye Xinxing Real Estate Service Co., Ltd	PRC	Limited liability company	Operation and management of investment projects in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Name of companies		Place of incorporation/ establishment	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by the Company (%)	Ownership interest held by the Group (%)	Ownership interest held by non-controlling interests (%)
中山市浩域房地產開發有限公司	Zhongshansi Haoyu Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	70%	30%
中山市金田房地產實業發展有限公司	Zhongshan Jintian Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB3,333,400 Paid up RMB3,333,400	—	70%	30%
清遠市耀威置業有限公司	Qingyuan Yaowei Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB 10,204,082 Paid up RMB 10,204,082	—	51%	49%
武漢力高置業有限公司	Wuhan Redco Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
武漢鳳翔島房地產開發有限公司	Wuhan Feng Xiang Dao Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB200,000,000 Paid up RMB200,000,000	—	70%	30%
武漢同信益置業有限公司	Wuhan Tong Xin Yi Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	40% (Note (xiii))	60%

Note:

- (i) Although the Group owns not more than half of the equity interest in Redco Investment (International) Co., Ltd. (“Redco Investment”), it is able to control the financing and operating decisions since the Group and the other shareholder agreed that the directors of the Group have the casting vote in the Board of Directors’ meeting for resolution of operating and major decisions. The decision are made by simple majority. It follows that the Group should consolidate Redco Investment as a subsidiary in the Group’ s financial statements.
- (ii) As the 70% shareholder of Nanchang Xinrong Property Development Co., Ltd (“Nanchang Xinrong”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Nanchang Xinrong and appoints 2 out of 3 directors of the board of Nanchang Xinrong. The decisions are made by simple majority. It follows that the Group should consolidate Nanchang Xinrong as a subsidiary in the Group’ s financial statements.
- (iii) Although the Group owns 49% of the equity interest in Nantong Xugao Property Co., Ltd (“Nantong Xugao”), the 51% shareholder of Nantong Xugao has granted its voting rights to the Group. The Group owns more than half of the voting rights in Nantong Xugao. The operating decision are made by simple majority. It follows that the Group should consolidate Nantong Xugao as a subsidiary in the Group’ s financial statements.



13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2018 are set out below: (Continued)

Note: (Continued)

- (iv) Although the Group owns not more than half of the equity interest in Jiangxi Redco Guocheng Real Estate Development Co., Ltd. (“Jiangxi Redco Guocheng”), it is able to control more than one half of the voting rights by virtue of the fact that more than half of the directors of these two companies are elected by the Group and the board of Jiangxi Redco Guocheng is able to direct the activities which significantly affect the returns. The decisions are made by simple majority. The board composition can only be altered with the consent of the 2 shareholders of Jiangxi Redco Guocheng. It follows that the Group should consolidate Jiangxi Redco Guocheng as subsidiaries in the Group’s financial statements.
- (v) As the 53.7% shareholder of Ningbo Lizhuo Property Co., Ltd. (“Ningbo Lizhuo”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Ningbo Lizhuo. The decisions are made by simple majority. It follows that the Group should consolidate Ningbo Lizhuo as a subsidiary in the Group’s financial statements.

Given Ningbo Lizhuo is a subsidiary of the Group, its subsidiaries, Ningbo Yu Yao Sheng Ming Property Development Co Ltd, Nongbo Yu Yao Sheng Ye Machinery Technology Co., Ltd and Ningbo Yu Yao Yun Sheng Machinery Technology Co., Ltd., are also the indirectly owned subsidiaries of the Group.
- (vi) As the 18% shareholder of Suzhou Yuncai Hongye Industry Development Compnay Limited (“Suzhou Yuncai”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Suzhou Yuncai. The decisions are made by simple majority. It follows that the Group should consolidate Suzhou Yuncai as a subsidiary in the Group’s financial statements.
- (vii) As the 62.5% shareholder of Tianjin Redco Weisheng Industry Development Compnay Limited (“Tianjin Weisheng”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Tianjin Weisheng. The decisions are made by simple majority. It follows that the Group should consolidate Tianjin Weisheng as a subsidiary in the Group’s financial statements.
- (viii) As the 3% shareholder of Tianjin Redco Dadao Real Estate Development Co., Ltd (“Tianjin Dadao”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Tianjin Dadao. The decisions are made by simple majority. It follows that the Group should consolidate Tianjin Dadao as a subsidiary in the Group’s financial statements.
- (ix) As the 28% shareholder of Tianjin Borui Real Estate Development Co., Ltd (“Tianjin Borui”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Tianjin Borui. The decisions are made by simple majority. It follows that the Group should consolidate Tianjin Borui as a subsidiary in the Group’s financial statements.
- (x) As the 18% shareholder of Quanzhou Lixing Real Estate Development Co., Ltd. (“Quanzhou Lixing”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Quanzhou Lixing. The decisions are made by simple majority. It follows that the Group should consolidate Quanzhou Lixing as a subsidiary in the Group’s financial statements.
- (xi) As the 69% shareholder of Xianyang Huayangli property Co., Ltd. (“Xianyang Huayangli”) has granted 21% voting rights of Xianyang Huayangli to the Group, the Group owns more than half of the voting rights in Xianyang Huayangli. The decisions are made by simple majority. It follows that the Group should consolidate Xianyang Huayangli as a subsidiary in the Group’s financial statements.
- (xii) As the 60% shareholder of Wuhan Tongxinyi Real Estate Development Co., Ltd. (“Wuhan Tongxinyi”) has granted 11% voting rights of Wuhan Tongxinyi to the Group, the Group owns more than half of the voting rights in Wuhan Tongxinyi. The decisions are made by simple majority. It follows that the Group should consolidate Wuhan Tongxinyi as a subsidiary in the Group’s financial statements.
- (xiii) The English names of PRC companies referred to above in this note represent management’s best efforts in translating the Chinese names of those companies as no English names have been registered or available.



13 SUBSIDIARIES (CONTINUED)

(b) Set out below are the summarised financial information of Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng Lianhua”), Jiangxi Yiju Property Development Co., Ltd. (“Jiangxi Yiju”), Nanchang Xinrong Project Development Co., Ltd. (“Nanchang Xinrong”), Nantong Xugao Real Estate Co., Ltd. (“Nantong Xugao”) and Nanchang Guogao Property Development Co., Ltd. (Nanchang Guogao”) that have non-controlling interests that are material to the Group:

Summarised balance sheet

	Redco Development		Changfeng Lianhua		Jiangxi Yiju		Nanchang Xinrong		Nantong Xugao		Nanchang Guogao (Note i)	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Current												
Assets	456,817	444,889	696,896	875,576	363,595	653,400	634,996	648,045	1,457,084	–	783,173	–
Liabilities	(220,508)	(207,502)	(124,325)	(395,761)	(474)	(473,543)	(409,532)	(659,112)	(247,871)	–	(283,757)	–
Total net current assets/(liabilities)	236,309	237,387	572,571	479,815	363,121	179,857	225,464	(11,067)	1,209,213	–	499,416	–
Non-current												
Assets	–	–	239	318	230	567	296	5,390	1,409	–	251	–
Liabilities	–	–	(6,883)	(6,991)	(87,545)	–	–	–	(175,000)	–	(2,932)	–
Total non-current net (liabilities)/assets	–	–	(6,644)	(6,673)	(87,315)	567	296	5,390	(173,591)	–	(2,681)	–
Net (liabilities)/assets	236,309	237,387	565,927	473,142	275,806	180,424	225,760	(5,677)	1,035,622	–	496,735	–

Summarised statement of profit or loss

	Redco Development		Changfeng Lianhua		Jiangxi Yiju		Nanchang Xinrong		Nantong Xugao		Nanchang Guogao (Note i)	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Net Revenue	–	–	19,028	815,175	430,549	320,962	822,190	–	–	–	150,198	–
(Loss)/profit before income tax	(1,079)	(1,235)	645	361,609	128,349	88,379	401,929	(19,955)	(5,519)	–	11,906	–
Income tax expense	–	–	92,141	(186,690)	(32,492)	(29,229)	(170,493)	4,989	1,380	–	4,230	–
Total comprehensive (loss)/income	(1,079)	(1,235)	92,786	174,919	95,857	59,150	231,436	(14,966)	(4,139)	–	16,136	–
(Loss)/profit allocated to non-controlling interests	(540)	(618)	18,557	34,984	46,970	28,984	162,005	(10,476)	(2,111)	–	7,907	–

The information above is before inter-company eliminations.



13 SUBSIDIARIES (CONTINUED)

- (b) Set out below are the summarised financial information of Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng Lianhua”), Jiangxi Yiju Property Development Co., Ltd. (“Jiangxi Yiju”), Nanchang Xinrong Project Development Co., Ltd. (“Nanchang Xinrong”), Nantong Xugao Real Estate Co., Ltd. (“Nantong Xugao”) and Nanchang Guogao Property Development Co., Ltd. (“Nanchang Guogao”) that have non-controlling interests that are material to the Group: (Continued)

Summarised statement of cash flows

	Redco Development		Changfeng Lianhua		Jiangxi Yiju		Nanchang Xinrong		Nantong Xugao		Nanchang Guogao (Note i)	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Cash (used in)/generated from operating activities	(366)	(1,030)	114,432	(69,154)	(33,545)	252,433	(14,369)	52,231	(1,207,209)	–	3,201	–
Income tax paid	–	–	(125,130)	(78,478)	(17,046)	(37,193)	(18,047)	(17,715)	(634)	–	(38,990)	–
Net cash (used in)/generated from operating activities	(366)	(1,030)	(10,698)	(147,632)	(50,591)	215,240	(32,416)	34,516	(1,207,843)	–	(35,789)	–
Net cash generated from/(used in) investing activities	–	–	212	57,138	–	432	(20)	(504)	(33)	–	–	–
Net cash generated from/(used in) financing activities	–	–	–	–	–	(199,900)	(30,000)	30,000	1,339,762	–	–	–
Net (decrease)/increase in cash and cash equivalents	(366)	(1,030)	(10,486)	(90,494)	(50,591)	15,772	(62,436)	64,012	131,886	–	(35,789)	–
Cash and cash equivalents at beginning of year	800	1,830	117,686	208,180	84,810	69,038	64,012	–	–	–	129,853	–
Cash and cash equivalents at end of year	434	800	107,200	117,686	34,219	84,810	1,576	64,012	131,886	–	94,064	–

Note (i): Nanchang Guogao became an indirectly wholly owned subsidiary for the Group from 1 July 2018. Hence, no summarised balance sheet as of 31 December 2017 is shown above and the summarised statement of profit or loss and the statement of cash flows are presented for the period from 1 July 2018 to 31 December 2018. Details of the step acquisitions are disclosed in Note 28.



14 INVESTMENT PROPERTIES

	2018 RMB' 000	2017 RMB' 000
At 1 January	434,669	—
Additions	284,854	—
Transfer from properties under development for sale	—	75,502
Capitalised subsequent expenditure	204	131
Fair value gain	84,172	359,036
At 31 December	<u>803,899</u>	<u>434,669</u>

As at 31 December 2018, an investment property with fair value of RMB480,777,000 (2017: Nil) was pledged as collaterals for the Group's bank and other borrowings of approximately RMB175,000,000 (2017: Nil) (Note 24).

Fair value measurement

As at 31 December 2018, the fair values of the investment properties were measured at level 3 of fair value hierarchy using significant unobservable inputs.

There were no transfers between levels 1, 2 and 3 during the year.

Valuation process of investment properties

The Group engages an external, independent and qualified valuer, Jiangxi Hengfang Real Estate and Land Valuation Consultancy Co., Ltd. (“江西恒方房地產土地估價諮詢有限公司”) to determine the fair values of the investment properties.

Discussions of valuation processes and results had been held between management and the valuer in respect of the valuation as at reporting date.

Information about fair value measurements using significant unobservable input (Level 3) is as follows:

Description	Fair value (RMB' 000)	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment property under development- PRC	480,777	Residual method	(1) Market selling prices (2) Developer's margin	(1) RMB16,640 - 21,078 per sq.m. (2) 35%	The higher the market selling prices and lower the developer's margin, the higher the fair value
Completed investment properties	323,122	Direct Comparison	(1) Market selling prices	(1) RMB45,045 - 51,520 per sq.m.	The higher the market selling prices, the higher the fair value



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	2018 RMB' 000	2017 RMB' 000
Associates	383,463	561,586
Joint ventures	316,831	472,935
At 31 December	<u>700,294</u>	<u>1,034,521</u>

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2018 RMB' 000	2017 RMB' 000
Associates	3,486	14,546
Joint ventures	73,982	68,324
For the year ended 31 December	<u>77,468</u>	<u>82,870</u>

(a) Interests in associates

	2018 RMB' 000	2017 RMB' 000
At beginning of the year	318,193	27,983
Additions	66,699	275,664
Transfer to a subsidiary (Note 28)	(4,915)	—
Share of profit, net		
– Gain on bargain purchase (Note b(i))	28,588	12,317
– Others	(25,102)	2,229
At end of the year	<u>383,463</u>	<u>318,193</u>
A loan due from an associate (Note i)	—	243,393
	<u>383,463</u>	<u>561,586</u>

Note:

- (i) The loan bore interest of 10% per annum, unsecured and had no fixed repayment terms. The carrying value approximated its fair value and was denominated in RMB. RMB100,000,000 was repaid by the associate during the year and the remaining balance has been reclassified to amounts due from associates (Note 34 (a)(iii)).



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Nature of interests in associates

Name of entity	Principal place of business	% of ownership is indirectly held interest		Nature of the relationship	Measurement method
		2018	2017		
Top Glory International Holdings Limited (“Top Glory”)	PRC	45%	45%	—	Equity
Jiangxi Chang Da Rui Feng Technology Development Co., Limited (江西昌大瑞豐科技發展有限公司) (“Jiangxi Chang Da Rui Feng”)	PRC	20%	20%	—	Equity
Jiangxi Life Sunshine City Investment Co., Limited (江西生命陽光城投資股份有限公司) (“Jiangxi Life Sunshine City”)	PRC	— (Note 28)	25%	—	Equity
Ganzhou Baoherun Co., Limited (贛州葆和潤實業有限公司) (“Ganzhou Baoherun”)	PRC	30%	20%	Note i	Equity
Xianyang Baorong Co., Limited (咸陽保榮實業有限公司) (“Xianyang Baorong”)	PRC	75%	75%	Note ii	Equity
Lianyungang Hengrun Real Estate Co., Ltd (連雲港恒潤置業有限公司) (“Lianyungang Hengrun”)	PRC	40%	—	Note iii	Equity
Fencheng Xinfei Property Development Co., Ltd. (豐城欣飛房地產開發有限公司) (“Fencheng Xinfei”)	PRC	40%	—	—	Equity
Fengcheng Liding Property Development Co., Ltd (豐城市力鼎房地產開發有限公司) (“Fengcheng Liding”)	PRC	40%	—	—	Equity
Fengcheng Hending Property Development Co., Ltd (豐城市恆鼎房地產開發有限公司) (“Fengcheng Hending”)	PRC	40%	—	—	Equity

The associates held by the Group have share capital consisting solely of ordinary shares. All of the associates are private companies with no quoted market price available for their shares.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Nature of interests in associates (Continued)

Note:

- (i) Ganzhou Baoherun is a limited liability company incorporated on 19 June 2014. The principal activities are property development and management in the PRC. Ganzhou Baoherun is accounted for as an associate following at a consideration of RMB57,500,000, representing 20% interest, on 30 September 2017. The Group acquired additional 10% equity interest of Ganzhou Baoherun at a consideration of RMB5,357,000 and the transaction was completed on 30 January 2018. The gain on bargain purchase of RMB28,588,000 was mainly resulted from the fact that the Group would bring in industry expertise to this associate.

The property project of Ganzhou Baoherun consists of three phases. The Group is entitled to 30% interest in phase 2 and an additional 21% voting rights of phase 2 of Ganzhou Baoherun was granted to the Group by the 70% shareholder of Ganzhou Baoherun. The decisions of phase 2 are made by simple majority. Meanwhile, the Group has no interests in phase 1 and phase 3.

Under HKFRS 10, the Company is required to consolidate as subsidiaries in its financial statements, companies which it controls. The Company controls another company if it has (i) power over the other company, (ii) exposure or rights to variable returns from its involvement with the other company and (iii) ability to use its power over the other company to affect the amount of the Company's returns. All three of these requirements must be met. The Company has assessed whether to consolidate Ganzhou Baoherun as a subsidiary in its financial statements in the light of the provisions of HKFRS 10.

Even though the Company holds 51% voting right of phase 2 of Ganzhou Baoherun, the directors of the Company is of the view, having considered the terms stated in the operating agreement entered into with the other shareholder and the way in which the board of the Company governs the affairs of Ganzhou Baoherun legally, that the Company does not have power over certain operating business of Ganzhou Baoherun and is not exposed to or able to obtain variable returns from that operating segment for the purposes of HKFRS 10. It follows that the three requirements in HKFRS 10 for consolidation have not been met, the Company should not consolidate Ganzhou Baoherun as a subsidiary in the Company's financial statements and should account for its interest in Ganzhou Baoherun as an associate.

- (ii) Xianyang Baorong is a limited liability company incorporated on 5 September 2011. The principal activities are property development and management in the PRC. Xianyang Baorong is accounted for as an associate following the acquisition of 75% interest at a consideration of RMB188,783,000 by the Group and the Group obtained the significant influence on 31 December 2017.

The property project of Xianyang Baorong consists of two phases. The Group is entitled to 75% interest of phase 2 and none of the interests in phase 1.

Under HKFRS 10, the Company is required to consolidate as subsidiaries in its financial statements, companies which it controls. The Company controls another company if it has (i) power over the other company, (ii) exposure or rights to variable returns from its involvement with the other company and (iii) ability to use its power over the other company to affect the amount of the Company's returns. All three of these requirements must be met. The Company has assessed whether to consolidate Xianyang Baorong as a subsidiary in its financial statements in the light of the provisions of HKFRS 10.

Even though the Company holds 75% of the shareholding and voting right in phase 2, the directors of the Company is of the view, having considered the terms stated in the operating agreement entered into with the other shareholder and the way in which the board of the Company governs the affairs of Xianyang Baorong legally, that the Company does not have power over certain operating business of Xianyang Baorong and is not exposed to or able to obtain variable returns from that operating segment for the purposes of HKFRS 10. It follows that the three requirements in HKFRS 10 for consolidation have not been met, the Company should not consolidate Xianyang Baorong as a subsidiary in the Company's financial statements and should account for its interest in Xianyang Baorong as an associated company.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Nature of interests in associates (Continued)

Note: (Continued)

(iii) Lianyungang Hengrun is a limited liability company incorporated on 15 May 2007. The principal activities are property development and management in the PRC. Lianyungang Hengrun is accounted for as an associate following the acquisition of 40% interest at a consideration of RMB33,340,000 by the Group and the Group obtained the significant influence on 22 August 2018.

The property project of Lianyungang Hengrun consists of three phases. The Group is entitled to 40% interest in phase 3 and none of the interests in phase 1 and phase 2.

(c) Summarised financial information for the associates

Set out below are the summarised financial information for Top Glory and its subsidiaries and Xianyang Baorong which, in the opinion of the directors, are material to the Group and other immaterial associates (“Others”). The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group’s share of those amounts. They have been amended to reflect adjustments when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

Summarised balance sheet

	Top Glory and its subsidiaries		Xianyang Baorong (Note (i))		Others (Note (i))	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Cash and cash equivalents	67,494	62,391	225,251	1,611	269,542	107,833
Other current assets (excluding cash)	11,866	11,326	407,112	265,774	4,510,736	1,187,951
Total current assets	79,360	73,717	632,363	267,385	4,780,278	1,295,784
Financial current liabilities (excluding trade payables)	—	—	—	—	(164,311)	(30,000)
Other current liabilities (including trade payables)	(57,043)	(59,749)	(567,877)	(196,988)	(3,816,729)	(831,024)
Total current liabilities	(57,043)	(59,749)	(567,877)	(196,988)	(3,981,040)	(861,024)
Non-current assets	1,969	1,802	126	49	116,449	117,094
Financial liabilities (excluding trade payables)	—	—	—	—	(398,393)	(243,393)
Other liabilities	—	—	(7,457)	(7,457)	(75,000)	(75,000)
Total non-current liabilities	—	—	(7,457)	(7,457)	(473,393)	(318,393)
Non-controlling interests	(3,191)	(3,866)	—	—	—	—
Net assets	21,095	11,904	57,155	62,989	442,294	233,461



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Summarised financial information for the associates (Continued)

Summarised income statement

	Top Glory and its subsidiaries		Xianyang Baorong (Note (i))		Others (Note (i))	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Revenue	128,270	103,262	—	—	999	6,380
Depreciation	(660)	(211)	(36)	—	(9,760)	(4,643)
Operating profit/(loss)	11,274	14,685	(6,125)	—	(57,107)	(3,658)
Interest income	13	—	735	—	1,771	145
Interest expenses	—	—	—	—	(30,138)	(12,002)
Tax expenses	(2,682)	(1,674)	—	—	—	—
Profit attributable to non-controlling interests	(366)	(1,156)	—	—	—	—
Total comprehensive income/(loss)	8,239	11,855	(5,390)	—	(85,474)	(15,515)



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Summarised financial information for the associates (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information of the associates presented to the carrying amount of the Group's interests in associates.

	Top Glory and its subsidiaries		Xianyang Baorong (Note (i))		Others (Note (i))		Total	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Opening net assets								
1 January	14,040	2,185	122,586	—	326,279	—	462,905	2,185
Initial recognition of the investment	—	—	—	122,586	144,876	341,794	144,876	464,380
Transfer to subsidiaries	—	—	—	—	(11,325)	—	(11,325)	—
Profit/(loss) for the year/period	8,239	11,855	(5,390)	—	(85,474)	(15,515)	(82,625)	(3,660)
Closing net assets	22,279	14,040	117,196	122,586	376,623	326,280	513,831	462,905
Interests in associates	10,026	6,318	87,897	91,940	129,743	65,837	227,666	164,095
Implicit goodwill	27,000	27,000	96,843	96,843	31,954	30,255	128,797	127,098
A loan due from an associate	—	—	—	—	—	243,393	—	243,393
Carrying value	37,026	33,318	184,740	188,783	161,697	339,485	383,463	561,586

Notes:

(i) As mentioned in Note 15 (b)(i), Note 15 (b)(ii) and Note 15 (b)(iii), the Group does not have power over certain operating business of Ganzhou Baoherun, Xianyang Baorong and Lianyungang Herun and is not exposed to or able to obtain variable returns from those operating segments.

In addition, the liabilities relating to those operating businesses over which the Group has no control or power when there is any defaults, may have impact on the Group's interests in such associate. As of 31 December 2018, there is no indicator of such defaults, and thus the outflow of resources of the Group is not probable.

Hence, the summarised balance sheet as of 31 December 2018 shown above is the financial position of Ganzhou Baoherun, Xianyang Baorong and Lianyungang Herun as a whole while the summarised income statement for the year ended 31 December 2018 of Ganzhou Baoherun, Xianyang Baorong and Lianyungang Herun only presented the results of phase 2, phase 2 and phase 3 respectively.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Summarised financial information for the associates (Continued)

Reconciliation of summarised financial information (Continued)

Notes: (Continued)

For the year ended 31 December 2017, the summarised income statement of Xianyang Baorong had not been disclosed as the result was related to the financial performance of the operating segment that the Group has no interest.

- (ii) No dividend has been paid or declared by the associates to the Group since the dates of investments and there are no other contingent liabilities relating to the Group's interests in associates.

(d) Interests in joint ventures

	2018 RMB' 000	2017 RMB' 000
At beginning of the year	401,886	338,185
Capital injection to a joint venture	500	500
Disposal of a joint venture (Note a)	—	(5,123)
Transfer to a subsidiary (Note 28)	(235,322)	—
Share of profit	73,982	68,324
Net asset attributable to the Group's interest	241,046	401,886
Unrealised gain from the transaction with a joint venture	(22,740)	(23,040)
At end of the year	218,306	378,846
Loans due from joint ventures (Note b)	98,525	94,089
	316,831	472,935

Note:

- (a) On 14 December 2017, Redco (China) Real Estate Co., Ltd. agreed to sell 36% of the equity interest of its joint venture, Jiangxi Manwei Property Development Co., Limited ("Jiangxi Manwei"), at a cash consideration of RMB16,875,000 to its joint venture partner of Jiangxi Manwei and the transaction was completed on the same day. Upon the completion, Jiangxi Manwei was derecognised as a joint venture of the Group and the gain on disposal was included in "other gains/(losses), net" in the consolidated statement of profit or loss (Note 7).
- (b) The loans due from joint ventures, Hui Gao Investments Development Limited and Power Out International Holding Limited, are interest-free, unsecured and have no fixed repayment terms. The carrying amount approximates their fair values.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(e) Nature of interests in joint ventures

Name of entity	Principal place of business	% of ownership indirectly held interest		Measurement method
		2018	2017	
Redco Industry (Jiangxi) Co., Limited ("Redco Industry")	PRC	50%	50%	Equity
Nanchang Guogao Property Development Co., Limited (南昌國高房地產置業有限公司)	PRC	— (Note 28)	51%	Equity
Jiangxi Po Hu Feng Qing Property Development Co., Limited (江西鄱湖風情置業有限公司)	PRC	— (Note 28)	60%	Equity
Power Out International Holding Limited	PRC	68%	68%	Equity
Hui Gao Investments Development Limited	PRC	51%	51%	Equity
Shenzhen Redco Hongye Property Development Co., Limited (深圳力高宏業地產開發有限公司)	PRC	50%	50%	Equity

The Group has joint control over the above entities under contractual agreements, and unanimous consent is required from all parties for all relevant activities of the entities.

The joint ventures held by the Group have share capital consisting solely of ordinary shares. All of the joint ventures are private companies with no quoted market price available for their shares.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(f) Summarised financial information for the joint ventures

Set out below are the summarised financial information for Redco Industry which, in the opinion of the directors, are material to the Group and other immaterial joint ventures (“Others”). The information disclosed reflects the amounts presented in the financial statements of the joint ventures and not the Group’s share of those amounts. They have been amended to reflect adjustments when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

Summarised balance sheet

	Redco Industry		Others	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Cash and cash equivalents	19,076	32,123	1,018	162,207
Other current assets (excluding cash)	12,381	27,781	161,532	889,914
Total current assets	31,457	59,904	162,550	1,052,121
Financial current liabilities (excluding trade payables)	—	—	—	—
Other current liabilities (including trade payables)	(18,722)	(64,328)	(299,709)	(854,813)
Total current liabilities	(18,722)	(64,328)	(299,709)	(854,813)
Non-current assets	514,172	506,436	420,017	470,312
Financial liabilities (excluding trade payables)	—	—	(337,705)	(356,227)
Other liabilities	(45,608)	(41,296)	—	—
Total non-current liabilities	(45,608)	(41,296)	(337,705)	(356,227)
Non-controlling interests	—	—	(3)	(3)
Net assets/(liabilities)	481,299	460,716	(54,850)	(311,390)



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(f) Summarised financial information for the joint ventures (Continued)

Summarised income statement

	Redco Industry		Others	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Revenue	103,081	92,041	577,570	535,400
Depreciation	(17,249)	(13,748)	(127)	(276)
Operating profit/(loss)	7,558	6,365	148,950	141,810
Fair value gain on an investment property	17,251	46,696	—	—
Interest income	118	46	58	482
Interest expenses	(31)	(31)	(18,032)	(23,021)
Tax (expenses)	(4,313)	(11,674)	(42,867)	(54,393)
Total comprehensive income	20,583	41,402	88,229	65,878
Unrecognised share of losses	—	—	24,354	13,512
Cumulative unrecognised share of losses	—	—	35,721	13,983

No dividend has been paid or declared by the joint ventures to the Group since the dates of investments.

A corporate guarantee provided by the Group to the subsidiary of Power Out International Holding Limited for a loan facility. Please see Note 31(b) for details.



15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(f) Summarised financial information for the joint ventures (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information of the joint ventures presented to the carrying amount of the Group's interests in joint ventures.

	Redco Industry		Others		Total	
	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000	2018 RMB' 000	2017 RMB' 000
Opening net assets 1 January	460,716	419,314	311,896	257,739	772,612	677,053
Initial recognition of the investment	—	—	—	1,000	66,848	1,000
Capital injection	—	—	1,000	—	1,000	—
Disposal of a joint venture	—	—	(454,254)	(12,720)	(454,254)	(12,720)
Profit/(loss) for the year	20,583	41,402	88,229	65,878	108,812	107,280
Closing net assets/(liabilities)	481,299	460,716	(53,129)	311,897	428,170	772,613
Interests in joint ventures	240,648	230,357	398	170,226	241,046	400,583
Unrealised profit from the transaction with a joint venture	(22,740)	(23,040)	—	—	(22,740)	(23,040)
Implicit goodwill	—	—	—	1,303	—	1,303
Amount due from a joint venture	—	—	98,525	94,089	98,525	94,089
Carrying value	217,908	207,317	98,923	265,618	316,831	472,935

**16 DEFERRED INCOME TAX**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The analysis of deferred tax assets/(liabilities), net, is as follows:

	2018 RMB' 000	2017 RMB' 000
Deferred income tax assets		
– to be recovered within 12 months	283,867	207,350
– to be recovered after more than 12 months	175,966	31,581
	<u>459,833</u>	<u>238,931</u>
Deferred income tax liabilities		
– to be settled within 12 months	(71,868)	(35,683)
– to be settled after more than 12 months	(214,183)	(229,921)
	<u>(286,051)</u>	<u>(265,604)</u>
Deferred tax assets/(liabilities), net	<u>173,782</u>	<u>(26,673)</u>

The movements on the net deferred income tax assets/(liabilities) are as follows:

	2018 RMB' 000	2017 RMB' 000
At 1 January	(26,673)	76,523
Credited/(charged) to the consolidated statement of profit or loss (Note 10)	212,552	(36,100)
Acquisition of subsidiaries (Note 28)	(12,097)	(64,718)
Assets classified as held for sale (Note 21)	—	(2,194)
Disposal of a subsidiary	—	(184)
At 31 December	<u>173,782</u>	<u>(26,673)</u>



16 DEFERRED INCOME TAX (CONTINUED)

Deferred tax assets:

	Unrealised profit RMB' 000	Tax losses RMB' 000	Provisions and others RMB' 000	Total RMB' 000
At 1 January 2017	5,835	45,517	167,781	219,133
(Charged)/credited to consolidated statement of profit of loss	(75)	10,524	11,727	22,176
Disposal of a subsidiary	—	(184)	—	(184)
Assets classified as held for sale	—	(2,194)	—	(2,194)
At 31 December 2017	<u>5,760</u>	<u>53,663</u>	<u>179,508</u>	<u>238,931</u>
At 1 January 2018	5,760	53,663	179,508	238,931
(Charged)/credited to consolidated statement of profit of loss	(75)	60,180	158,628	218,733
Acquisition of subsidiaries (Note 28)	—	2,169	—	2,169
At 31 December 2018	<u>5,685</u>	<u>116,012</u>	<u>338,136</u>	<u>459,833</u>

Deferred tax liabilities:

	Fair value adjustment on acquisition of subsidiaries RMB' 000	Fair value gain on an investment property RMB' 000	Interest capitalised RMB' 000	Withholding tax RMB' 000	Total RMB' 000
At 1 January 2017	17,901	—	53,648	71,061	142,610
(Credited)/charged to consolidated statement of profit of loss	(10,910)	89,759	(39,956)	19,383	58,276
Acquisition of subsidiaries	64,718	—	—	—	64,718
At 31 December 2017	<u>71,709</u>	<u>89,759</u>	<u>13,692</u>	<u>90,444</u>	<u>265,604</u>
At 1 January 2018	71,709	89,759	13,692	90,444	265,604
(Credited)/charged to consolidated statement of profit of loss	(33,107)	21,043	(13,692)	31,937	6,181
Acquisition of subsidiaries (Note 28)	14,266	—	—	—	14,266
At 31 December 2018	<u>52,868</u>	<u>110,802</u>	<u>—</u>	<u>122,381</u>	<u>286,051</u>

**16 DEFERRED INCOME TAX (CONTINUED)**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. As at 31 December 2018 and 2017, the unrecognised tax losses are as follows:

	2018 RMB' 000	2017 RMB' 000
Expiry date in:		
2018	—	3,206
2019	38,730	38,730
2020	24,100	24,100
2021	27,527	27,530
2022	35,789	35,789
2023	62,194	—
No expiry date	15,345	15,369
	203,685	144,724

During the year, tax losses amounting to RMB3,206,000 (2017: RMB3,313,000) expired.

Pursuant to the relevant PRC corporate income tax rules and regulations, deferred tax on withholding tax is imposed on declared dividends in respect of profits earned by the Group's PRC subsidiaries from 1 January 2008.

Deferred income tax liabilities of approximately RMB45,087,000 (2017: RMB45,087,000) as at 31 December 2018 have not been provided for in the consolidated balance sheet in respect of temporary differences attributable to accumulated profits of the Group's certain PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not be reversed in the foreseeable future.

17 COMPLETED PROPERTIES HELD FOR SALE

	2018 RMB' 000	2017 RMB' 000
Amount comprised:		
Land use rights	786,156	671,492
Construction costs and capitalised expenditures	1,201,986	761,718
Interest capitalised	145,676	130,882
	2,133,818	1,564,092

Completed properties held for sale are all located in the PRC.



18 PROPERTIES UNDER DEVELOPMENT FOR SALE

	2018 RMB' 000	2017 RMB' 000
Within normal operating cycle included under current assets		
Amount comprised:		
Land use rights	12,350,903	3,653,337
Construction costs and capitalised expenditures	2,523,725	1,790,369
Interest capitalised	805,500	284,748
	<u>15,680,128</u>	<u>5,728,454</u>

The normal operating cycle of the Group's property development generally ranges from one to two years.

The properties under development for sale are all located in the PRC.

	2018 RMB' 000	2017 RMB' 000
Properties under development for sale:		
Expected to be completed and available for sale after more than 12 months	10,655,370	2,873,776
Expected to be completed and available for sale within 12 months	5,024,758	2,854,678
	<u>15,680,128</u>	<u>5,728,454</u>
Pledged as collateral for the Group's borrowings (Note 24)	<u>8,913,463</u>	<u>2,963,928</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND OTHER PREPAYMENTS

	2018 RMB' 000	2017 RMB' 000
Trade receivables, other receivables and deposits:		
Trade receivables (Note a, b, c and g)	263,682	147,910
Accrued contract revenue (Note d)	—	700,000
	<u>263,682</u>	<u>847,910</u>
Other receivables (Note b)	2,119,885	1,117,961
Loan receivables (Note e)	212,412	—
Receivables in relation to the disposal of assets and liabilities held for sales (Note 29)	150,000	—
Deposits with local real estate associations (Note f)	555,791	1,109,331
Deposits with labour department	10,275	2,645
Deposits with treasury bureau	109,759	4,747
	<u>3,158,122</u>	<u>2,234,684</u>
Less: provision for impairment on other receivables and deposits	(50,260)	—
	<u>3,107,862</u>	<u>2,234,684</u>
	<u>3,371,544</u>	<u>3,082,594</u>
Prepayments:		
Prepaid other taxes	127,688	26,623
Prepayments of purchase of property, plant and equipment	—	475,236
Prepayments for construction costs	29,757	4,888
Prepayments for land use rights	850,865	678,602
Prepayments for acquisitions of subsidiaries	45,300	254,000
Prepayments for investment in an associate	60,000	—
	<u>1,113,610</u>	<u>1,439,349</u>
Less: Non-current portion		
– prepayments for purchase of property, plant and equipment	—	(475,236)
– prepayments for investment in an associate	(60,000)	—
	<u>1,053,610</u>	<u>964,113</u>



19 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND OTHER PREPAYMENTS (CONTINUED)

Note:

- (a) Trade receivables mainly arise from sales of properties. Proceeds in respect of sales of properties are to be received in accordance with the terms of the related sales and purchase agreements. Credit terms are generally granted to certain customers and the customers are required to settle the receivables according to the sales and purchase agreements.
- (b) Included in trade receivables and other receivables are amounts due from Customer A (Note 5(b)) of RMB193,343,000 (2017: Nil) and RMB338,143,000 (2017: Nil) respectively.
- (c) The ageing analysis of trade receivables at the balance sheet dates based on revenue recognition date was as follows:

	2018 RMB' 000	2017 RMB' 000
0 - 30 days	197,142	95,312
31 - 60 days	—	9,130
61 - 90 days	2,370	16,660
91 - 180 days	6,111	7,888
Over 180 days	58,059	18,920
	<u>263,682</u>	<u>147,910</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. The expected losses rate is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates. No provision was made against the gross amount of trade receivables. (2017: Nil).

As at 31 December 2018, trade receivables of RMB46,673,000 (2017: RMB140,590,000) were overdue but not impaired.

The ageing analysis of those trade receivables which were overdue but not impaired was as follows:

	2018 RMB' 000	2017 RMB' 000
0 - 30 days	31,920	88,712
31 - 60 days	311	9,130
61 - 90 days	—	16,660
91 - 180 days	370	7,888
Over 180 days	14,072	18,200
	<u>46,673</u>	<u>140,590</u>

**19 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND OTHER PREPAYMENTS (CONTINUED)**

Note: (Continued)

- (d) Accrued contract revenue arose from the Group's sea reclamation service to the PRC government. The sea reclamation service provided to the customer was completed and the corresponding receivable balance is not yet billed due to administrative procedures. This balance has been transferred to Contract Assets upon the adoption of HKFRS 15 (Note 5(c)).
- (e) During the year ended 31 December 2018, the Group granted an unsecured loan of HK\$100,000,000 (equivalent to RMB87,620,000) (2017: N/A) to an independent third party for a term of 12 months at interest rates of 11% per annum from 25 July 2018 to 31 October 2018 and 14.875% per annum from 1 November 2018 to 31 December 2018. Included in loan receivables amount is an interest receivable of RMB4,792,000 (2017: N/A) as at 31 December 2018.

During the year ended 31 December 2018, the Group granted loans of RMB100,000,000 (2017: N/A) and RMB20,000,000 (2017: N/A) to 2 independent third parties respectively. The loans are interest-free, repayable within 12 months from the date of grant and secured by the pledge of 20% equity interest of an entity held by these third parties.

- (f) The deposits with local real estate associations mainly included deposits made to PRC government bodies for future land development and site clearing for the listing-for-sale or in connection with the retention of the quality for properties construction as required by the relevant regulations in respect of the Group's property development projects.
- (g) Trade receivables are secured by the properties sold. The carrying amounts of trade receivables approximates their fair values and are interest-free.
- (h) The carrying amounts of other receivables and deposits approximate their fair values and are unsecured, interest-free and repayable on demand.
- (i) The carrying amounts of the Group's trade receivables, other receivables and deposits are denominated in the following currencies:

	2018 RMB' 000	2017 RMB' 000
RMB	3,249,980	3,082,594
HK\$	102,564	—
US\$	19,000	—
	<u>3,371,544</u>	<u>3,082,594</u>



20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2018 RMB' 000	2017 RMB' 000
Cash at bank and on hand	3,661,763	3,587,770
Short term bank deposits (Note a)	2,017,100	—
Less: assets classified as held for sales (Note 21)	—	(708)
Cash and cash equivalents	5,678,863	3,587,062
Restricted cash (Note b)	2,186,139	1,318,450
Cash and cash equivalents and restricted cash	<u>7,865,002</u>	<u>4,905,512</u>

The carrying amounts of the Group's cash and cash equivalents and restricted cash are equivalent to their fair values and are denominated in the following currencies:

	2018 RMB' 000	2017 RMB' 000
RMB	7,808,282	4,121,026
US\$	34,989	751,421
HK\$	9,101	33,065
AUD	12,630	—
	<u>7,865,002</u>	<u>4,905,512</u>

Note:

- (a) These bank deposits are denominated in RMB. The deposits had an average maturity of three months or less (2017: N/A), except that RMB 1,517,100,000 of bank deposits (2017: Nil) had maturity dates over 3 months and contained an unconditional cancellable term. Management has an intention to withdraw the bank deposits within 12 months, hence they are classified as current assets.
- (b) Restricted cash comprises (i) guaranteed deposits for the mortgage loan facilities granted by banks to purchasers of the Group's properties, (ii) guaranteed deposits for constructions of properties from certain property development companies of the Group that are required to place certain amount of presale proceeds of properties in designated bank accounts in accordance with relevant regulations issued by local State-Owned Land and Resource Bureau, and (iii) other bank deposits of RMB97,800,000 (2017: Nil) (Note 24) that are restricted in use as collateral for banking facilities of the Group.

The cash and cash equivalents and restricted cash denominated in RMB are deposited with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

**21 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE**

On 19 December 2017, Tianjin Redco Shengye Company Limited (天津力高盛業有限公司), an indirectly subsidiary of the Group incorporated in the PRC, entered into an agreement (the “Agreement”) with Shanghai Zhong Da Industry Development Company Limited (上海重達實業發展有限公司) (the “Purchaser”), a company incorporated in the PRC which is principally engaged in investment holding and independent of the Group, in relation to the disposal of all its equity interest in Shanghai Mingchang Real Estate Company Limited (上海明昌置業有限公司) (the “Disposal Company”). As of the date of the Agreement, the Disposal Company was principally engaged in property development. The consideration for the disposal is approximately RMB671,798,000 (subject to adjustment). Approximately RMB67,179,800, representing 10% of the consideration, has been paid by the Purchaser (Note 25). Completion is conditional upon the satisfaction of certain conditions precedents stipulated in the Agreement.

The following assets and liabilities were reclassified as held for sale in relation to the Disposal Company as at 31 December 2017:

	RMB' 000
Assets classified as held for sale	
Property, plant and equipment (Note 11)	466
Deferred income tax assets (Note 16)	2,194
Properties under development for sale	462,536
Trade and other receivables, deposits and prepayments	2,027
Cash and cash equivalents	708
Total assets of the Disposal Company held for sale	<u>467,931</u>
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	<u>(1,544)</u>
Total liabilities of the Disposal Company held for sale	<u>(1,544)</u>

The Disposal Company has been disposed on 27 February 2018. Please refer to Note 29 for details.



22 SHARE CAPITAL

	Number of Share	Par value per share	Share Capital	
			HK\$' 000	RMB' 000
Authorised:				
As at 31 December 2017 and 31 December 2018	10,000,000,000	HK\$0.05	500,000	418,899
Issued and fully paid:				
As at 31 December 2017 and 31 December 2018	3,551,609,322	HK\$0.05	177,580	139,632

23 RESERVES

	Share premium RMB' 000	Exchange reserve RMB' 000	Statutory reserve RMB' 000	Merger reserve RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	Total RMB' 000
At 1 January 2017	1,241,423	(240,828)	254,839	134,402	(10,226)	1,330,635	2,710,245
Comprehensive income							
Profit for the year	—	—	—	—	—	862,237	862,237
Other comprehensive income/(loss)							
Currency translations differences	—	170,639	—	—	—	—	170,639
Transfer to statutory reserve	—	—	65,042	—	—	(65,042)	—
Total comprehensive income (Note 35)	—	170,639	65,042	—	—	797,195	1,032,876
Transactions with owners							
Dividends relating to 2017 interim (Note 36)	—	—	—	—	—	(71,032)	(71,032)
Total transactions with owners, recognised in equity	—	—	—	—	—	(71,032)	(71,032)
At 31 December 2017, as previously reported	1,241,423	(70,189)	319,881	134,402	(10,226)	2,056,798	3,672,089
Change in accounting policy (Note 2.1.2)	—	—	—	—	—	(22,173)	(22,173)
	1,241,423	(70,189)	319,881	134,402	(10,226)	2,034,625	3,649,916



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 RESERVES (CONTINUE)

	Share premium RMB' 000	Exchange reserve RMB' 000	Statutory reserve RMB' 000	Merger reserve RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	Total RMB' 000
Comprehensive income							
Profit for the year	—	—	—	—	—	990,747	990,747
Other comprehensive (loss)/income							
Currency translations differences	—	(217,322)	—	—	—	—	(217,322)
Transfer to statutory reserve	—	—	46,814	—	—	(46,814)	—
Total comprehensive income	1,241,423	(287,511)	366,695	134,402	(10,226)	2,978,558	4,423,341
Transactions with owners							
Change in ownership interests in subsidiary without change of control	—	—	—	—	9,810	—	9,810
Dividends relating to 2017 final (Note 35)	—	—	—	—	—	(106,548)	(106,548)
Dividends relating to 2018 interim (Note 35)	—	—	—	—	—	(88,790)	(88,790)
Total transactions with owners, recognised in equity	—	—	—	—	9,810	(195,338)	(185,528)
At 31 December 2018	1,241,423	(287,511)	366,695	134,402	(416)	2,783,220	4,237,813

24 BORROWINGS

	2018 RMB' 000	2017 RMB' 000
Long-term bank and other borrowings, secured (Note a)	3,549,978	3,982,100
11% Senior Notes due 2020, secured (Note b)	1,362,773	—
Non-current borrowings, secured	4,912,751	3,982,100
Short-term bank and other borrowings, secured (Note a)	592,540	472,300
7% Senior Notes due 2018, secured (Note c)	—	1,622,697
6.375% Senior Notes due 2019, secured (Note d)	2,048,688	—
8% Private Notes due 2019, secured (Note e)	108,534	—
	2,749,762	2,094,997
Portion of long-term bank and other borrowings secured (Note a)		
– due for repayment within one year	3,246,900	1,002,286
– due for repayment within one year which contain a repayment on demand clause	24,500	24,500
– due for repayment after one year which contain a repayment on demand clause	125,768	139,336
Current borrowings, secured	6,146,930	3,261,119
Total borrowings	11,059,681	7,243,219



24 BORROWINGS (CONTINUED)

Notes:

- (a) The Group's bank and other borrowings as at 31 December 2018 of RMB4,703,953,000 (2017: RMB2,425,680,000), were secured by certain properties under development for sale (Note 18) with the carrying amount of RMB8,913,463,000 (2017: RMB2,963,928,000), an investment property (Note 14) of RMB480,777,000 (2017: Nil) and bank deposits (Note 20) of RMB97,800,000 (2017: Nil). The Group's bank and other borrowings as at 31 December 2018 of RMB2,835,733,000 (2017: RMB3,194,842,000) were guaranteed by the Company and secured by the Group's equity interests in certain subsidiaries.

Bank and other borrowings bear interest from 4.99% to 13.00% (2017: 2.90% to 9.50%) per annum.

- (b) On 23 August 2018, the Company issued 11% Senior Notes due in 2020 with an aggregate nominal value of US\$200,000,000 at par value (the "11% Senior Notes due 2020"). The interest is payable semi-annually in arrears. The 11% Senior Notes due 2020 will mature on 29 August 2020, unless redeemed earlier. It is listed on the Singapore Exchange Securities Trading Limited.
- (c) On 9 August 2017, the Company redeemed an aggregate principal amount of US\$125,000,000 of all outstanding senior notes due in 2019 (the "13.75% Senior Notes due 2019"). The total redemption price paid by the Company was US\$133,976,000. The finance charges on early redemption of 13.75% Senior Notes due 2019 of approximately RMB58,031,000 was included in "finance income and costs" in the consolidated statement of profit or loss for the year ended 31 December 2017.

On 15 November 2017, the Company issued 7% senior notes due in 2018 with an aggregate nominal value of US\$250,000,000 at par value (the "7% Senior Notes due 2018"). On 17 September 2018, the Company redeemed US\$200,000,000 in principal amount of the 7% Senior Notes due 2018 (the "Partial Redemption"). The finance charges on early redemption of the 7% Senior Notes due 2018 of approximately RMB13,282,000 was included in "finance income and costs" in the consolidated statement profit or loss for the year ended 31 December 2018. The total redemption amount was US\$206,744,000. After completion of the Partial Redemption, the outstanding principal amount of the 7% Senior Notes due 2018 was US\$50,000,000 which was repaid on 14 November 2018 upon maturity.

- (d) On 23 February 2018, the Company issued 6.375% senior notes due in 2019 with an aggregate nominal value of US\$300,000,000 at par value (the "6.375% Senior Notes due 2019"). The interest is payable semi-annually in arrears. The 6.375% Senior Notes due 2019 will mature on 27 February 2019 unless redeemed earlier. It is listed on the Singapore Exchange Securities Trading Limited.
- (e) On 1 August 2018, the Company issued 8% private notes due in 2019 with an aggregate nominal value of US\$15,800,000 at par value (the "8% Private Notes due 2019"). The interest is payable semi-annually in arrears. The 8% Private Notes due 2019 will mature on 31 August 2019 unless redeemed earlier.

The Company, at its option, can redeem the 6.375% Senior Notes due 2019, the 8% Private Notes due 2019 and the 11% Senior Notes due 2020 in whole or in part prior to their maturity at the redemption price as defined in the agreements of these notes. The early redemption option of the 6.375% Senior Notes due 2019, the 8% Private Notes due 2019 and the 11% Senior Notes due 2020 is regarded as embedded derivatives not closely related to the host contract. The directors consider that the fair value of the above early redemption options was insignificant on recognition and at 31 December 2018.

The Group's senior notes as at 31 December 2018 totalling RMB3,519,995,000 (2017: RMB1,622,697,000) are guaranteed by the Company and secured by the Group's equity interests in certain subsidiaries, and subject to the fulfilment of covenants relating to certain of the Group's financial indicators. The Group regularly monitors its compliance with these covenants. As at 31 December 2018, none of these covenants had been breached.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 BORROWINGS (CONTINUED)

The amounts based on the scheduled repayment dates set out in the loan agreements and the maturities of the Group's total borrowings at the respective balance sheet dates (i.e. ignoring the effect of any repayment on demand clause) are shown below:

	2018 RMB' 000	2017 RMB' 000
Amounts of borrowings that are repayable:		
– Within 1 year	6,021,162	3,121,793
– Between 1 and 2 years	4,553,060	2,113,509
– Between 2 and 5 years	485,459	2,007,917
Total borrowings	<u>11,059,681</u>	<u>7,243,219</u>

The carrying amounts of the Group's borrowings approximate their fair values as the impact of discounting is not significant or the borrowings carrying floating rate of interests.

The Group's borrowings are denominated in the following currencies:

	2018 RMB' 000	2017 RMB' 000
US\$	5,960,995	3,879,876
RMB	4,948,417	3,199,507
HK\$	150,269	163,836
	<u>11,059,681</u>	<u>7,243,219</u>

As at 31 December 2018, the Group had aggregate banking facilities of approximately RMB9,770,255,000 (2017: RMB7,944,228,000) for overdrafts and bank loans. There were unused facilities of approximately RMB1,001,256,000 as at the same date (2017: RMB1,472,200,000).

25 TRADE AND OTHER PAYABLES

	2018 RMB' 000	2017 RMB' 000
Trade payables (Note a)	2,372,836	1,401,828
Accruals and other payables (Note b)	3,079,036	298,499
Other taxes payables	709,872	364,314
Deposit received for the sale of the Disposal Company (Note 21)	—	67,180
Dividend payables	52,337	6,907
Salary payables	7,004	2,246
Interest payables	97,881	15,138
Rental deposits received	4,566	—
	<u>6,323,532</u>	<u>2,156,112</u>



25 TRADE AND OTHER PAYABLES (CONTINUE)

Note:

- (a) The ageing analysis of the trade payables based on invoice date was as follows:

	2018 RMB' 000	2017 RMB' 000
0 - 30 days	1,984,378	1,348,561
31 - 60 days	72,850	418
61 - 90 days	90,922	13,859
Over 90 days	224,686	38,990
	2,372,836	1,401,828

- (b) The other payables included an advance of RMB1,872,137,000 (2017: Nil) from Customer A (Note 5(b)) for investing a potential property development project to be developed in the PRC with the Group.

The advance is unsecured, non-interest bearing and has no repayment term.

- (c) The carrying amounts of the Group's trade payables approximate their fair values due to their short maturities and are denominated in RMB.

26 CONTRACT LIABILITIES (2017: RECEIPTS IN ADVANCE)

The Group receives payments from customers based on billing schedule as established in contracts, payments are usually received in advance of the performance under the contracts which are mainly from sales of properties. Such proceeds from customers are recorded as contract liabilities (2017: receipts in advance) before the relevant sales are recognised.

(a) Revenue recognised in relation to contract liabilities

Revenue recognised that was included in the contract liabilities balance at 1 January 2018 is approximately RMB3,726,643,000 during the year ended 31 December 2018.

(b) Unsatisfied contracts related to the sales of properties

As at 31 December 2018, approximately RMB7,471,196,000 of unsatisfied performance obligations resulting from the property sales are expected to be recognised within twelve months period, whereas approximately RMB 5,130,385,000 of unsatisfied performance obligations resulting from the property sales are expected to be recognised after twelve months.



27 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to net cash generated from operations:

	2018 RMB' 000	2017 RMB' 000
Profit before income tax	2,213,472	1,597,867
– Depreciation on property, plant and equipment	9,930	6,597
– Finance income	(95,025)	(44,729)
– Finance costs	71,662	70,945
– Gain on disposal of subsidiaries	(304,271)	(1,566)
– Gain on disposal of investment in a joint venture	—	(11,752)
– Gains on bargain purchase arising from acquisition of subsidiaries	—	(1,150)
– Gain on disposal of property, plant and equipment	(351)	(226)
– Fair value gain on investment property	(84,172)	(359,036)
– Share of profit of investment accounted for using the equity method, net	(77,468)	(82,870)
– Impairment loss on other receivables	18,345	—
– Impairment of goodwill	—	49,535
– Remeasurement gains on interests in investments accounted for using the equity method	(14,999)	—
– Realisation of unrealised gain from the transaction with a joint venture	(300)	(300)
– Exchange differences	136,710	24,089
Operating profit before working capital change:	1,873,533	1,247,407
– Completed properties held for sale	(569,726)	408,389
– Properties under development for sale	(6,851,732)	1,423,390
– Contract assets	(700,000)	—
– Trade and other receivables and prepayments	892,924	(1,752,614)
– Contract liabilities	7,169,457	—
– Receipts in advance	(4,673,042)	271,620
– Trade and other payables	2,004,132	(1,134,710)
– Restricted cash	(769,889)	(132,195)
Net cash (used in)/generated from operations	<u>(1,624,343)</u>	<u>331,287</u>

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2018 RMB' 000	2017 RMB' 000
Net book amount (Note 11)	296	718
Net gain on disposals of property, plant and equipment (Note 7)	351	226
Proceeds from disposals of property, plant and equipment	<u>647</u>	<u>944</u>



27 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Reconciliation of liabilities from financing activities

	Liabilities from financing activities				
	Borrowings RMB' 000	Amounts to non- controlling interests RMB' 000	Amount due to an associate RMB' 000	Amounts to joint ventures RMB' 000	Total RMB' 000
As at 31 December 2016	3,629,232	451,308	—	65,663	4,146,203
Repayment of advances from non-controlling interests	—	(334,894)	—	—	(334,894)
Advances from joint ventures	—	—	—	74,546	74,546
Proceeds from bank and other borrowings	4,997,001	—	—	—	4,997,001
Repayment of bank and other borrowings	(2,111,100)	—	—	—	(2,111,100)
Issuance of 7% Senior Notes due 2018	1,673,784	—	—	—	1,673,784
Redemption of 13.75% Senior Notes due 2019	(899,974)	—	—	—	(899,974)
Other non-cash movements	135,817	—	—	—	135,817
Foreign exchange adjustments	(181,541)	—	—	—	(181,541)
As at 31 December 2017	<u>7,243,219</u>	<u>116,414</u>	<u>—</u>	<u>140,209</u>	<u>7,499,842</u>
As at 31 December 2017	7,243,219	116,414	—	140,209	7,499,842
Advances from non-controlling interests	—	2,007,245	—	—	2,007,245
Advances from joint ventures	—	—	—	129,241	129,241
Advance from an associate	—	—	66,000	—	66,000
Proceeds from bank and other borrowings	4,572,845	—	—	—	4,572,845
Repayment of bank and other borrowings	(3,037,142)	—	—	—	(3,037,142)
Issuance of 6.375% Senior Notes due 2019	2,277,435	—	—	—	2,277,435
Issuance of 11% Senior Notes due 2020	1,310,388	—	—	—	1,310,388
Payment for repurchase of 7% Senior Notes due 2018	(1,799,231)	—	—	—	(1,799,231)
Redemption of 6.375% Senior Notes due 2019	(6,748)	—	—	—	(6,748)
Other non-cash movements	130,147	—	—	(245,694)	(115,547)
Foreign exchange adjustments	368,768	—	—	—	368,768
As at 31 December 2018	<u>11,059,681</u>	<u>2,123,659</u>	<u>66,000</u>	<u>23,756</u>	<u>13,273,096</u>



28 ACQUISITIONS OF SUBSIDIARIES

28.1 Assets acquisitions

(a) *Acquisition of Wuhan Feng Xiang Dao Property Development Co., Ltd.*

On 11 January 2018, the Group completed the acquisition of 70% equity interest of Wuhan Feng Xiang Dao Property Development Co., Ltd. (武漢鳳翔島房地產開發有限公司) (“Wuhan Feng Xiang Dao”) at a consideration of approximately RMB140,000,000. Wuhan Feng Xiang Dao is principally engaged in property development in Wuhan.

(b) *Acquisition of Hefei Tong Zhu Property Co., Ltd.*

On 17 January 2018, the Group completed the acquisition of 100% equity interest of Hefei Tong Zhu Property Co., Ltd. (合肥同鑄置業有限公司) (“Hefei Tong Zhu”) at a consideration of approximately RMB132,240,000. Hefei Tong Zhu is principally engaged in property development in Hefei.

(c) *Acquisitions of Ningbo Yu Yao Sheng Ming Property Development Co., Ltd., Ningbo Yu Yao Sheng Ye Machinery Technology Co., Ltd. and Ningbo Yu Yao Yun Sheng Machinery Technology Co., Ltd.*

On 26 June 2018, the Group completed the acquisitions of 62% equity interest of Ningbo Yu Yao Sheng Ming Property Development Co., Ltd. (寧波余姚晟明房地產開發有限公司) (“Ningbo Sheng Ming”), Ningbo Yu Yao Sheng Ye Machinery Technology Co., Ltd. (寧波余姚晟業機器人科技有限公司) (“Ningbo Sheng Ye”) and Ningbo Yu Yao Yun Sheng Machinery Technology Co., Ltd. (寧波余姚雲晟機器人科技有限公司) (“Ningbo Yun Sheng”) at consideration of approximately RMB205,460,000, RMB72,060,000 and RMB94,810,000 respectively. These companies are principally engaged in property development in Ningbo.

Apart from the above, the Group acquired a number of property development project companies. The directors of the Company consider that these subsidiaries acquired during the year were insignificant to the Group and thus the individual financial information of these subsidiaries on the acquisition date was disclosed as “Others” in aggregate amount.

As the above newly acquired companies did not operate any business prior to the date of acquisition, the Group considers the nature of the acquisitions as acquisitions of assets in substance and the consideration should be attributable to the individual assets acquired and liabilities assumed.



28 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

28.1 Assets acquisitions (Continued)

The following table summarises the consideration paid for the acquisitions, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Wuhan Feng Xiang Dao RMB' 000	Hefei Tong Zhu RMB' 000	Ningbo Sheng Ming RMB' 000	Ningbo Yun Sheng RMB' 000	Others RMB' 000	Total RMB' 000
Consideration paid and payable as at acquisition date	140,000	132,240	205,460	94,810	91,000	755,570
<u>Recognised amounts of identifiable assets acquired and liabilities assumed:</u>						
Property, plant and equipment	3,677	—	48	—	—	3,725
Prepayments, deposits and other receivable	37,707	90,829	440	15	560,373	689,376
Properties under development	273,406	783,358	506,567	152,897	638,305	2,354,533
Cash and cash equivalents	954	636	4,962	7	44,493	56,221
Borrowings	(71,873)	—	—	—	—	(71,873)
Other payables	(43,871)	(742,583)	(180,630)	—	(1,023,835)	(1,990,919)
Total identifiable net assets acquired	200,000	132,240	331,387	152,919	224,517	1,041,063
Less: Non-controlling interest initially recognised as at acquisition date	(60,000)	—	(125,927)	(58,109)	(41,457)	(285,493)
Net assets acquired	<u>140,000</u>	<u>132,240</u>	<u>205,460</u>	<u>94,810</u>	<u>183,060</u>	<u>755,570</u>
<u>Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:</u>						
Cash consideration paid	140,000	132,240	205,460	94,810	91,000	755,570
Less: Prepayment for acquisition paid in prior year	(50,000)	(132,240)	—	—	—	(182,240)
Less: Cash and cash equivalents acquired	(954)	(636)	(4,962)	(7)	(44,493)	(56,221)
Net cash outflow/(inflow)	<u>89,046</u>	<u>(636)</u>	<u>200,498</u>	<u>94,803</u>	<u>46,507</u>	<u>517,109</u>



28 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

28.2 Step acquisitions

- (a) *Step acquisition of Nanchang Guogao Property Development Co., Limited (“Nanchang Guogao”) and Jiangxi Po Hu Feng Qing Property Development Co., Limited (“Jiangxi Po Hu Feng Qing”)*

Nanchang Guogao and Jiangxi Po Hu Feng Qing were 51% and 60% joint ventures of the Group before the step acquisition respectively.

On 1 July 2018, the Group negotiated with the joint venture partner of Nanchang Guogao and Jiangxi Po Hu Feng Qing, who is an independent third party, for the business operation and management of Nanchang Guogao. The joint venture partner intended to cooperate with the Group for its industry expertise for its existing property development projects. Hence, Nanchang National Resources Operating Group Property Development Co., Limited has signed an agreement with the Group and granted its 49% and 40% of voting rights of Nanchang Guogao and Jiangxi Po Hu Feng Qing to the Group respectively, and the Group obtained a control of the board of the directors of Nanchang Guogao and Jiangxi Po Hu Feng Qing. It follows that the Group should consolidate Nanchang Gougao as subsidiaries from 1 July 2018 when the memoranda of association are effective.

- (b) *Step acquisition of Jiangxi Life Sunshine City Investment Co., Limited (“Jiangxi Life Sunshine City”)*

Jiangxi Life Sunshine City was a 25% associate of the Group before the step acquisition.

On 17 November 2018, the Group acquired the remaining 75% equity interest of Jingxi Life Sunshine City at a consideration of RMB15,000,000.

The following table summarises the consideration paid for the acquisitions, the fair value of assets acquired and liabilities assumed at the acquisition date:

	Nanchang Guogao RMB' 000	Jiangxi Po Hu Feng Qing RMB' 000	Jiangxi Life Sunshine City RMB' 000
Consideration:			
– Fair value of the shares held by the Group	245,104	5,132	5,000
– Cash consideration	—	—	15,000
<u>Less: Net assets acquired:</u>			
– Property, plant and equipment	321	732	117
– Completed properties and properties under development	67,329	86,798	24,818
– Prepayments, deposits and other receivable	275,178	8,346	13,420
– Cash and cash equivalents	70,212	3,808	994
– Other payables	(170,893)	(86,257)	(3,345)
– Amount due from/(to) the group	245,694	(21)	(16,004)
– Deferred income tax assets	—	—	2,169
– Deferred income tax liabilities	(7,245)	(4,852)	(2,169)
	480,596	8,554	20,000
Less: Non-controlling interests initially recognised as at acquisition date	(235,492)	(3,422)	—
	<u>245,104</u>	<u>5,132</u>	<u>20,000</u>



28 ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

28.2 Step acquisitions (Continued)

- (b) *Step acquisition of Jiangxi Life Sunshine City Investment Co., Limited (“Jiangxi Life Sunshine City”)*
(Continued)

The following table summarises the consideration paid for the acquisitions, the fair value of assets acquired and liabilities assumed at the acquisition date: (Continued)

	Nanchang Guogao RMB' 000	Jiangxi Po Hu Feng Qing RMB' 000	Jiangxi Life Sunshine City RMB' 000
Fair value of interests in joint ventures or an associate	245,104	5,132	5,000
Less: Interests in joint ventures/an associate	(235,322)	—	(4,915)
Remeasurement gain	9,782	5,132	85
<u>Analysis of net cash flows arising from the step acquisitions:</u>			
Cash consideration	—	—	(15,000)
Less: Payable to the ex-shareholder	—	—	15,000
Add: Cash and cash equivalents acquired	70,212	3,805	994
Net cash inflow from the step acquisitions	70,212	3,805	994

Nanchang Guogao and Jiangxi Po Hu Feng Qing contributed revenue of RMB169,530,000 and net profit after tax of RMB18,753,000 to the Group for the period from 1 July 2018, the acquisition date, to 31 December 2018.

Jiangxi Life Sunshine City would contribute net loss after tax of RMB165,000 to the Group for the period from 17 November 2018, the acquisition date, to 31 December 2018. No revenue generated by Jiangxi Life Sunshine City during the year ended 31 December 2018.

If all the above step acquisitions had occurred on 1 January 2018, consolidated revenue and net profit after tax of the Group for the year ended 31 December 2018 would have been RMB7,313,500,000 and RMB1,420,230,000 respectively.

29 DISPOSAL OF ASSETS AND LIABILITIES HELD FOR SALES

On 1 January 2018, the Group completed the purchase of 10% equity interest of Shanghai Mingchang Real Estate Company Limited (上海明昌置業有限公司) (“Shanghai Mingchang”) from the non-controlling interest at a consideration of approximately RMB18,540,000 which was prepaid in 2017. The Group recorded a decrease in non-controlling interest of approximately RMB28,350,000 against an increase in the balance in reserves of approximately RMB9,810,000 upon the completion of the purchase.

On 27 February 2018, the Group completed the disposal of 100% equity interest in Shanghai Mingchang at an adjusted consideration of approximately RMB644,644,000 to Shanghai Zhong Da Industry Development Company Limited (上海重達實業發展有限公司) (“Shanghai Zhong Da”), an independent third party.



29 DISPOSAL OF ASSETS AND LIABILITIES HELD FOR SALES (CONTINUED)

An analysis on the gain on disposal of assets and liabilities held for sales is as follows:

	RMB' 000
Consideration satisfied by cash consideration	644,644
Less: Net assets disposed of on the date of completion on 27 February 2018:	
– Property, plant and equipment	(466)
– Properties under development	(462,216)
– Deferred income tax assets	(2,194)
– Trade and other receivables, deposits and prepayments	(2,428)
– Cash and cash equivalents	(4,726)
– Amounts due to group companies	184,603
– Trade and other payables	61
	(287,366)
Less: Individual income tax paid for ex-shareholders for the acquisition in year 2016	(53,007)
Gain on disposal of a subsidiary, pre-tax	304,271
Less: PRC enterprise income tax payable upon disposal of a subsidiary	(92,402)
Gain on disposal of a subsidiary, net of tax	<u>211,869</u>
An analysis on net cash flows arising from the disposal:	
Net cash consideration	644,644
Less: Receivable from Shanghai Zhong Da	(150,000)
Less: Deposit received in prior year	(67,180)
Less: Individual income tax paid for ex-shareholders for the acquisition in year 2016	(53,007)
Less: Cash and cash equivalents disposed	(4,726)
Net cash inflow	<u>369,731</u>

30 COMMITMENTS

(a) Capital commitments and property development commitments

	2018 RMB' 000	2017 RMB' 000
Contracted but not provided for:		
– Land use right	414,387	—
– Leasehold improvement	1,628	—
– Property development expenditures	6,045,822	2,244,062
– Acquisition of subsidiaries	—	146,446
– Capital injection to a joint venture	—	5,357
	<u> </u>	<u> </u>



30 COMMITMENTS (CONTINUED)

(b) *Operating lease commitments*

At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of office as follows:

	2018 RMB' 000	2017 RMB' 000
No later than one year	2,274	904
Later than one year and no later than 5 years	4,611	272
	<u>6,885</u>	<u>1,176</u>

31 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

(a) *Guarantees on mortgage facilities*

The Group had the following contingent liabilities in respect of financial guarantees on mortgage facilities at the end of each of the following reporting periods:

	2018 RMB' 000	2017 RMB' 000
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties	<u>5,932,804</u>	<u>6,052,438</u>

The Group has arranged bank financing for certain purchasers of the Group's properties and provided guarantees to secure obligations of such purchaser for repayments. Such guarantees will terminate upon the earlier of (i) the transfer of the real estate ownership certificate to the purchaser which will generally occur within an average period of six months to three years from the completion of the guarantee registration; or (ii) the satisfaction of mortgage loans by the purchasers of the properties.

Pursuant to the terms of the guarantees, upon default of mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with accrued interest and penalties owed by the defaulting purchasers to the banks and the Group is entitled to retain the legal title and take over the possession of the related properties. The Group's guarantee period starts from the date of grant of mortgage. The directors consider that the likelihood of default of payments by the purchasers is minimal and their obligations are well covered by the value of the properties and therefore the fair value of financial guarantees is immaterial.

- (b) The Company provides a corporate guarantee of AUD 70,000,000 to the subsidiary of Power Out International Ltd., a joint venture of the Group, for a loan facility which was fully utilised by the joint venture. The directors of the Company are of the opinion that it is not probable that the above guarantee will be called upon and the guarantee measured at fair value is immaterial.

Save as disclosed above, the Group and the Company had no other significant contingent liabilities as at 31 December 2018 (2017: Nil).

**32 EARNINGS PER SHARE**

The basic earnings per share for the year ended 31 December 2018 is calculated based on the profit attributable to owners of the Company.

	2018	2017
Profit attributable to owners of the Company (RMB' 000)	<u>990,747</u>	<u>862,237</u>
Weighted average number of shares in issue	<u>3,551,609,322</u>	<u>3,551,609,322</u>
Basic earnings per share (RMB cents)	<u>27.90</u>	<u>24.28</u>

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for the years ended 31 December 2018 and 2017.

33 AMOUNTS DUE FROM/(TO) NON-CONTROLLING INTERESTS

Except for amounts due from non-controlling interest of RMB32,270,000, RMB50,000,000 and RMB15,000,000 which bear interest of 8.5%, 18% and 11% per annum respectively (2017: RMB207,518,000 and RMB15,000,000 which bears interest of 10% and 11% per annum respectively) and are secured by their interests in the Group's subsidiaries, the amounts due from non-controlling interests are interest-free, unsecured and repayable on demand. The carrying values approximate their fair values and are denominated in RMB.

Except for amounts due to non-controlling interest of RMB368,337,000 which bears interest of 4.75% per annum (2017: Nil), the amounts due to non-controlling interests are interest-free, unsecured and repayable in demand. The carrying values approximate their fair values and are denominated in RMB.



34 RELATED PARTY TRANSACTIONS

The Group is jointly controlled by Wong Yeuk Hung and Huang Ruoqing, who own 39.06% and 26.04% of the Company's shares respectively.

Major related parties that had transactions with the Group were as follows:

Related parties	Relationship with the Company
Top Glory International Holdings Ltd. and its subsidiaries	An associate
Jiangxi Chang Da Rui Feng Technology Development Co., Ltd. 江西昌大瑞豐科技發展有限公司	An associate
Ganzhou Baoherun Co., Ltd. 贛州葆和潤實業有限公司	An associate
Xianyang Baorong Co., Ltd. 咸陽保榮實業有限公司	An associate
Lianyungang Hengrun Real Estate Co., Ltd 連雲港恒潤置業有限公司	An associate
Fengcheng Xinfei Property Development Co., Ltd 豐城市欣飛房地產開發有限公司	An associate
Fengcheng Liding Property Development Co., Ltd 豐城市力鼎房地產開發有限公司	An associate
Fengcheng Hending Property Development Co., Ltd 豐城市恆鼎房地產開發有限公司	An associate
Redco Industry (Jiangxi) Co., Ltd. 力高實業(江西)有限公司	A joint venture
Hui Gao Investments Development Ltd. and its subsidiary 匯高投資發展有限公司	A joint venture
Power Out International Holding Ltd. and its subsidiaries 力澳國際控股有限公司	A joint venture
Shenzhen Redco Hongye Property Development Co., Ltd. 深圳力高宏業地產開發有限公司	A joint venture
Wong Yeuk Hung (Mr. Wong) 黃若虹	A major shareholder and director of the Group (Note a)
Huang Ruoqing (Mr. Huang) 黃若青	A major shareholder and director of the Group

Note:

- (a) Mr. Wong was appointed as an executive director and chairman of the Board with effect from 9 March 2017.



34 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Balances with related parties

(i) Amounts due from joint ventures

	2018 RMB' 000	2017 RMB' 000	Nature	Interest	Currency
Redco Industry (Jiangxi) Co., Ltd.	—	27,911	Non-trade	N/A	RMB
Jiangxi Po Hu Feng Qing Property Development Co., Ltd.	—	25,212	Non-trade	N/A	RMB
Power Out International Holding Ltd. and its subsidiaries	4,844	—	Non-trade	N/A	HK\$
	4,844	53,123			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.

(ii) Amounts due to joint ventures

	2018 RMB' 000	2017 RMB' 000	Nature	Interest	Currency
Shenzhen Redco Hongye Property Development Co., Ltd.	2,737	12,737	Non-trade	N/A	RMB
Hui Gao Investments Development Ltd. and its subsidiary	9,830	8,701	Non-trade	N/A	HK\$
Power Out International Holding Ltd. and its subsidiaries	—	2,108	Non-trade	N/A	HK\$
Nanchang Guogao Property Development Co. Ltd.	—	116,663	Non-trade	N/A	RMB
Redco Industry (Jianxi) Co., Ltd.	11,189	—	Non-trade	N/A	RMB
	23,756	140,209			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.



34 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Balances with related parties (Continued)

(iii) Amounts due from associates

	2018 RMB' 000	2017 RMB' 000	Nature	Interest	Currency
Top Glory International Holdings Ltd. and its subsidiaries	7,818	6,721	Non-trade	N/A	RMB
Jiangxi Life Sunshine City Investment Co., Ltd.	—	16,000	Non-trade	N/A	RMB
Jiangxi Chang Da Rui Feng Technology Development Co., Ltd.	10,000	10,000	Non-trade	N/A	RMB
Lianyungang Hengrun Real Estate Co., Ltd	146,660	—	Non-trade	N/A	RMB
Ganzhou Baoherun Co., Ltd	168,393	—	Non-trade	10%	RMB
Fengcheng Liding Property Development Co., Ltd	18,667	—	Non-trade	N/A	RMB
Fengcheng Hengding Property Development Co., Ltd	13,333	—	Non-trade	N/A	RMB
	364,871	32,721			

(iv) Amounts due to an associate

	2018 RMB' 000	2017 RMB' 000	Nature	Interest	Currency
Xianyang Baorong Co., Ltd	66,000	—	Non-trade	N/A	RMB
	66,000	—			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.

(b) Transactions with related parties

Save as disclosed in Note 30 (c), the Group has the following related party transactions:

- (i) During the year ended 31 December 2018, the Group purchased property management service amounting to RMB25,833,000 (2017: RMB31,695,000) from Top Glory International Holdings Ltd. and its subsidiaries, at prices mutually agreed by contracted parties.
- (ii) During the year ended 31 December 2018, the Group provided project management consultancy service amounting to RMB986,000 (2017: RMB 136,000) to its associates.

During the year ended 31 December 2017, the Group provided project management consultancy service amounting to RMB28,125,000 to its joint ventures.

**34 RELATED PARTY TRANSACTIONS (CONTINUED)***(c) Key management compensation*

Key management includes executive directors and top management. The compensation paid or payable to key management for employee services is shown below:

	2018 RMB' 000	2017 RMB' 000
Salaries, bonus and other benefits	19,916	7,642
Pension costs - defined contribution plan	476	225
	<u>20,392</u>	<u>7,867</u>

35 DIVIDENDS

	2018 RMB' 000	2017 RMB' 000
Interim dividend of RMB 2.5 cents (2017: RMB 2 cents) per ordinary share	88,790	71,032
Proposed final dividend of RMB 3 cents (2017: RMB 3 cents) per ordinary share	106,548	106,548
	<u>195,338</u>	<u>177,580</u>

A final dividend for the year ended 31 December 2018 of RMB3 cents (2017: RMB 3 cents) per ordinary share, totally approximately RMB106,548,000 (2017: RMB106,548,000) has been recommended by the Board for approval at the forthcoming annual general meeting of the Company. The proposed final dividend has not been dealt with as dividend payable as at 31 December 2018.



36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	2018 RMB' 000	2017 RMB' 000
ASSETS			
Non-current asset			
Investment in a subsidiary		389,362	389,362
Current assets			
Prepayments		730	733
Amounts due from subsidiaries		7,781,900	5,123,090
Cash and cash equivalents		707	348,323
		<u>7,783,337</u>	<u>5,472,146</u>
Total assets		<u>8,172,699</u>	<u>5,861,508</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		139,632	139,632
Reserves	(a)	1,916,101	1,815,652
Total equity		<u>2,055,733</u>	<u>1,955,284</u>
Liabilities			
Non-current liability			
Borrowings		2,772,833	2,117,595
Current liabilities			
Accrued expense		154,539	24,913
Amount due to a subsidiary		1,432	1,435
Borrowings		3,188,162	1,762,281
		<u>3,344,133</u>	<u>1,788,629</u>
Total liabilities		<u>6,116,966</u>	<u>3,906,224</u>
Total equity and liabilities		<u>8,172,699</u>	<u>5,861,508</u>

The balance sheet of the Company was approved for issue by the Board of Directors on 29 March 2019 and were signed on its behalf:

WONG Yeuk Hung
Director

HUANG Ruoqing
Director



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a): Reserve movement of the Company

	Share premium RMB' 000	Contribution surplus RMB' 000	Exchange reserve RMB' 000	(Accumulated losses)/ retained earnings RMB' 000	Total RMB' 000
At 1 January 2017	1,241,423	390,766	111,934	(340,961)	1,403,162
Comprehensive income					
– Profit for the year	—	—	—	522,504	522,504
Other comprehensive loss					
– Currency translation differences	—	—	(38,982)	—	(38,982)
Total comprehensive income/(loss)	—	—	(38,982)	522,504	483,522
Transactions with owners					
– Dividend relating to 2017 interim	—	—	—	(71,032)	(71,032)
At 31 December 2017	1,241,423	390,766	72,952	110,511	1,815,652
Comprehensive income					
– Profit for the year	—	—	—	287,210	287,210
Other comprehensive income					
– Currency translation differences	—	—	8,577	—	8,577
Total comprehensive income	—	—	8,577	287,210	295,787
Transactions with owners					
– Dividend relating to 2017 final	—	—	—	(106,548)	(106,548)
– Dividend relating to 2018 interim	—	—	—	(88,790)	(88,790)
At 31 December 2018	1,241,423	390,766	81,529	202,383	1,916,101



37 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTOR) REGULATION (CAP. 622G) AND HK LISTING RULES

(a) *Directors' and chief executive's emoluments*

The remuneration of each director and the chief executive is set out below:

For the year ended 31 December 2018:

Name	Fees RMB' 000	Salary (Note a) RMB' 000	Discretionary bonuses RMB' 000	Employer's contribution to a retirement benefit scheme	Total RMB' 000
				RMB' 000	
Executive Directors					
Mr. WONG Yeuk Hung	—	2,500	—	16	2,516
Mr. HUANG Ruoqing	—	2,500	—	16	2,516
Mr. TANG Chengyong	—	2,500	1,493	64	4,057
Independent non-executive directors					
Dr. WONG Yau Kar, David BBS, JP	215	—	—	—	215
Mr. CHAU On Ta Yuan	215	—	—	—	215
Mr. YIP Tai Him	215	—	—	—	215
Mr. CHOW Kwong Fai, Edward JP	258	—	—	—	258
	<u>903</u>	<u>7,500</u>	<u>1,493</u>	<u>96</u>	<u>9,992</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTOR) REGULATION (CAP. 622G) AND HK LISTING RULES (CONTINUED))

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2017:

Name	Fees RMB' 000	Salary (Note a) RMB' 000	Discretionary bonuses RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Total RMB' 000
Executive Directors					
Mr. WONG Yeuk Hung	—	1,790	—	14	1,804
Mr. HUANG Ruoqing	—	2,000	—	16	2,016
Mr. TANG Chengyong	—	1,028	300	58	1,386
Mr. HONG Duxuan (Note c)	—	256	—	16	272
Independent non-executive directors					
Dr. WONG Yau Kar, David BBS, JP	216	—	—	—	216
Mr. CHAU On Ta Yuan	216	—	—	—	216
Mr. YIP Tai Him	216	—	—	—	216
Mr. CHOW Kwong Fai, Edward JP	260	—	—	—	260
	<u>908</u>	<u>5,074</u>	<u>300</u>	<u>104</u>	<u>6,386</u>

Note a:

Salary received by the executive directors included all emoluments paid or receivable in respect of directors' services in connection with the management of the Company and its subsidiary undertakings.

Note b:

Save as disclosed above, the directors did not receive or will not receive any other retirement benefits or termination benefits during the year (2017: Nil).

Note c:

Mr. HONG Duxuan resigned as an executive director with effect from 9 March 2017.

(b) Directors' material interests in transactions, arrangements or contracts

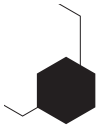
No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



38 SUBSEQUENT EVENTS

On 10 January 2019, the Company issued 13.5% senior notes due 2020 with an aggregate nominal value of US\$250,000,000 at par value (the “13.5% Senior Notes due 2020”). The interest is payable semi-annually in arrears. The net proceeds, after deducting the direct issuance costs, amounted to approximately US\$247,000,000. The 13.5% Senior Notes due 2020 will mature on 21 January 2020, unless redeemed earlier.

On 27 March 2019, the Company entered into a facility agreement with certain financial institutions in respect of a US\$175,000,000 term loan facility with a term of 36 months from the date of the facility agreement and at an interest rate of London Inter-bank Offered Rate plus 5.1% per annum.



INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Redco Properties Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Redco Properties Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 61 to 159, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR’ S REPORT

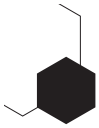
KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarise:

- Valuation of an investment property
- Classification of the investments

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of an investment property</p> <p><i>Refer to Note 2.7, 4.1 and 14 to the consolidated financial statements</i></p> <p>As at 31 December 2017, the carrying amount of the Group’ s investment property under development in the People Republic of China (“PRC”) was approximately RMB434.7 million and a fair value gain of approximately RMB359.0 million was recognised in the consolidated statement of profit or loss during the year. The Group engaged an independent external valuer to perform a valuation of the investment property as at 31 December 2017.</p> <p>The valuation was arrived at using the residual method by making reference to the estimated selling prices of the proposed development upon completion as available in the relevant market, less the estimated costs to complete the development and the requisite developer’ s margin.</p> <p>The existence of significant judgment and estimates of the key assumptions involved in the property valuation warrants specific audit focus and attention on this area.</p>	<p>Our procedures in relation to the valuation of the investment property included:</p> <ul style="list-style-type: none"> • Assessing the competence, capability and independence of the independent external valuer; • Using our in-house valuation expert to assess the appropriateness of the valuation methodology used by the valuer and the reasonableness of the key assumptions adopted in the valuation based on their knowledge of the property industry; and • Checking, on a sample basis, the data used in the valuation, including the estimated selling prices of the proposed development and the estimated costs to complete, by comparing them to the relevant market data and agreements with the contractors, respectively. <p>Based on the audit procedures performed, we consider the methodology used in preparing the valuation was appropriate and the key assumptions were supportable in light of available internal and other market evidence.</p>

**INDEPENDENT AUDITOR'S REPORT**

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
<p data-bbox="256 478 550 506">Classification of investments</p> <p data-bbox="256 521 821 585"><i>Refer to Note 2.2, 2.3, 4.2, 15 and 28 to the consolidated financial statements</i></p> <p data-bbox="256 600 821 719">During the year ended 31 December 2017, the Group made investments with consideration of approximately RMB589.3 million for investments in subsidiaries and RMB275.7 million for investments in associates.</p> <p data-bbox="256 734 821 889">We focused on this area due to the magnitude of the investments and the fact that significant judgements were made by management in determining the appropriate classification of the investments that involved complex terms and arrangements.</p>	<p data-bbox="821 478 1396 542">Our procedures in relation to the classification of the investments included:</p> <ul data-bbox="821 557 1396 1251" style="list-style-type: none"><li data-bbox="821 557 1396 855">• We read the contracts and agreements in relation to those investments made in the current year. We assessed the terms and conditions of those investments, including evaluation of whether there is any indication or evidence of control or significant influence found in the detailed arrangement of these investments, to determine whether appropriate classification had been adopted by management in relation to those investments based on the consideration of the totality of facts.<li data-bbox="821 876 1396 995">• We discussed with management and obtained management assessment to understand their critical judgements and the classification that they had applied.<li data-bbox="821 1017 1396 1251">• We also discussed with management to obtain an understanding on the details of such investments, including relevant activities of the investee companies and how decisions about those activities are made, how the Group and other investors participate in the decisions, the rights and power of the Group and other investors on the investee companies. <p data-bbox="821 1272 1396 1351">Based on the audit procedures performed, we noted that management's judgement applied in the classification of the investments was supported by the available evidence.</p>

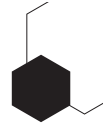
OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

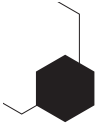
The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 Lee Kin Wah, Albert.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

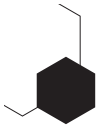


CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Revenue	5	6,734,067	5,270,090
Cost of sales	6	(5,057,627)	(4,184,751)
Gross profit		1,676,440	1,085,339
Other (losses)/gains, net	7	(15,803)	171,237
Selling and marketing expenses	6	(195,475)	(146,611)
General and administrative expenses	6	(233,450)	(164,767)
Fair value gain on an investment property	14	359,036	—
Impairment of goodwill	12	(49,535)	—
Operating profit		1,541,213	945,198
Finance income	9	44,729	15,302
Finance costs	9	(70,945)	(6,364)
Finance (cost)/income, net		(26,216)	8,938
Share of profit of investments accounted for using the equity method, net	15	82,870	6,612
Profit before income tax		1,597,867	960,748
Income tax expense	10	(607,735)	(405,983)
Profit for the year		990,132	554,765
Profit attributable to:			
Owners of the Company		862,237	450,756
Non-controlling interests		127,895	104,009
		990,132	554,765
Earnings per share for profit attributable to owners of the Company for the year			(Restated)
– Basic and diluted (expressed in RMB cents per share)	33	24.28	12.69

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the year ended 31 December 2017*

	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Profit for the year	990,132	554,765
Other comprehensive income/(loss) Item that may be reclassified to profit or loss		
– Currency translation differences	171,999	(146,687)
Total other comprehensive income/(loss)	171,999	(146,687)
Total comprehensive income for the year	1,162,131	408,078
Attributable to:		
– Owners of the Company	1,032,876	305,177
– Non-controlling interests	129,255	102,901
Total comprehensive income for the year	1,162,131	408,078

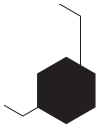
The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)	2015 RMB' 000 (Restated) (Note 2.1.2)
ASSETS				
Non-current assets				
Property, plant and equipment	11	36,489	31,423	36,178
Goodwill	12	—	49,535	49,535
Investment property	14	434,669	—	—
Investments accounted for using the equity method	15	1,034,521	374,432	196,803
Trade and other receivables, deposits and prepayments	19	475,236	—	—
Deferred income tax assets	16	238,931	219,133	58,445
		<u>2,219,846</u>	<u>674,523</u>	<u>340,961</u>
Current assets				
Completed properties held for sale	17	1,564,092	1,972,481	1,237,046
Properties under development for sale	18	5,728,454	5,717,924	7,218,874
Trade and other receivables, deposits and prepayments	19	4,046,707	2,150,640	1,788,400
Amounts due from joint ventures	35	53,123	113,984	—
Amounts due from associates	35	32,719	3,479	—
Amounts due from non-controlling interests	34	672,675	463,439	158,615
Income tax recoverable		180,948	154,762	125,398
Restricted cash	20	1,318,450	1,186,255	668,759
Cash and cash equivalents	20	3,587,062	2,417,219	1,689,142
		<u>17,184,230</u>	<u>14,180,183</u>	<u>12,886,234</u>
Assets classified as held for sale	21	467,931	—	—
		<u>17,652,161</u>	<u>14,180,183</u>	<u>12,886,234</u>
Total assets		<u>19,872,007</u>	<u>14,854,706</u>	<u>13,227,195</u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	22	139,632	139,632	139,632
Reserves	23	3,672,089	2,710,245	2,414,878
		<u>3,811,721</u>	<u>2,849,877</u>	<u>2,554,510</u>
Non-controlling interests		797,579	555,158	370,760
Total equity		<u>4,609,300</u>	<u>3,405,035</u>	<u>2,925,270</u>

**CONSOLIDATED BALANCE SHEET**

As at 31 December 2017

	Note	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)	2015 RMB' 000 (Restated) (Note 2.1.2)
LIABILITIES				
Non-current liabilities				
Borrowings	24	3,982,100	3,319,532	2,750,027
Deferred income tax liabilities	16	265,604	142,610	183,943
		<u>4,247,704</u>	<u>3,462,142</u>	<u>2,933,970</u>
Current liabilities				
Trade and other payables	25	2,156,112	2,224,538	2,990,763
Borrowings	24	3,261,119	309,700	470,513
Amounts due to non-controlling interests	34	116,414	451,308	349,900
Amount due to a related party	35	—	—	161,109
Amounts due to joint ventures	35	140,209	65,663	—
Receipts in advance	26	4,507,441	4,235,821	2,949,214
Income tax liabilities		832,164	700,499	446,456
		<u>11,013,459</u>	<u>7,987,529</u>	<u>7,367,955</u>
Liabilities directly associated with assets classified as held for sale	21	1,544	—	—
		<u>11,015,003</u>	<u>7,987,529</u>	<u>7,367,955</u>
Total liabilities		<u>15,262,707</u>	<u>11,449,671</u>	<u>10,301,925</u>
Total equity and liabilities		<u>19,872,007</u>	<u>14,854,706</u>	<u>13,227,195</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 61 to 159 were approved for issue by the Board of Directors on 28 March 2018 and were signed on its behalf:

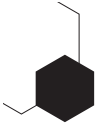
WONG Yeuk Hung
Director

HUANG Ruoqing
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company			Non-controlling interests RMB' 000	Total equity RMB' 000
	Share capital RMB' 000	Reserves RMB' 000	Total RMB' 000		
Balance at 1 January 2016, as previously reported	139,632	2,383,306	2,522,938	370,760	2,893,698
Effect of change in accounting policy (Note 2.1.2)	—	31,572	31,572	—	31,572
Balance at 1 January 2016 (Restated)	139,632	2,414,878	2,554,510	370,760	2,925,270
Comprehensive income					
– Profit for the year, as previously reported	—	434,319	434,319	104,009	538,328
Effect of change in accounting policy (Note 2.1.2)	—	16,437	16,437	—	16,437
	—	450,756	450,756	104,009	554,765
Other comprehensive loss					
– Currency translation differences	—	(145,579)	(145,579)	(1,108)	(146,687)
Total comprehensive income for the year (restated)	—	305,177	305,177	102,901	408,078
Transactions with owners					
Non-controlling interests arising on business combination	—	—	—	31,366	31,366
Disposal of equity interests in subsidiaries	—	—	—	(11,522)	(11,522)
Change in ownership interests in subsidiaries without change in control	—	(9,810)	(9,810)	19,653	9,843
Capital injection from non-controlling interests	—	—	—	66,000	66,000
Dividends relating to 2015	—	—	—	(24,000)	(24,000)
Total transactions with owners, recognised directly in equity	—	(9,810)	(9,810)	81,497	71,687
Balance at 31 December 2016 (Restated)	139,632	2,710,245	2,849,877	555,158	3,405,035



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Total equity RMB' 000
		Share capital RMB' 000	Reserves RMB' 000	Total RMB' 000	Non- controlling interests RMB' 000	
Balance at 1 January 2017, as previously reported		139,632	2,662,236	2,801,868	555,158	3,357,026
Effect of change in accounting policy (Note 2.1.2)		—	48,009	48,009	—	48,009
Balance at 1 January 2017 (Restated)		139,632	2,710,245	2,849,877	555,158	3,405,035
Comprehensive income						
– Profit for the year		—	862,237	862,237	127,895	990,132
Other comprehensive loss						
– Currency translation differences		—	170,639	170,639	1,360	171,999
Total comprehensive income for the year		—	1,032,876	1,032,876	129,255	1,162,131
Transactions with owners						
Non-controlling interests arising on business combination	28	—	—	—	101,466	101,466
Capital injection from non-controlling interests		—	—	—	11,700	11,700
Dividends relating to 2017 interim		—	(71,032)	(71,032)	—	(71,032)
Total transactions with owners, recognised directly in equity		—	(71,032)	(71,032)	113,166	42,134
Balance at 31 December 2017		139,632	3,672,089	3,811,721	797,579	4,609,300

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

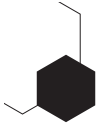


CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB' 000	2016 RMB' 000
Cash flows from operating activities			
Net cash generated from operations	27	331,287	2,037,822
Income tax paid		(466,158)	(392,678)
Net cash (used in)/generated from operating activities		(134,871)	1,645,144
Cash flows from investing activities			
Additions of property, plant and equipment		(11,693)	(4,416)
Proceeds from disposal of property, plant and equipment	27	944	355
Capitalised subsequent expenditure on an investment property	14	(131)	—
Payments for business combinations, net of cash acquired	28	(516,728)	(483,714)
Net (outflows)/inflows of cash in respect of the disposal of subsidiaries	29	(672)	72,490
Payments for investment in joint ventures	15	(500)	(136,576)
Payments for investment in associates	15	(275,664)	—
Proceeds from the disposal of a joint venture	15	16,875	—
Prepayment for purchase of property, plant and equipment		(430,236)	—
Proceed from disposal of 10% interest in a subsidiary from non-controlling interest		—	19,843
Payment for acquisition of 10% interest in a non-wholly owned subsidiary from non-controlling interest		—	(10,000)
Proceeds from capital injection from non-controlling interests		—	66,000
Advances to non-controlling interests		(189,768)	—
Advances to associates		(22,990)	(3,479)
Advances to joint ventures		92,465	(48,321)
Loans due from joint ventures		(94,089)	—
Loan due from an associate		(243,393)	—
Interest received		19,012	15,302
Net cash used in investing activities		(1,656,568)	(512,516)
Cash flows from financing activities			
Proceeds from bank borrowings		4,997,001	2,674,714
Repayment of bank borrowings		(2,111,100)	(2,395,996)
Issuance of Senior Note due 2018		1,673,784	—
Redemption of Senior Note due 2019		(899,974)	—
Repayment of advances from non-controlling interests		(334,894)	(203,416)
Advances from joint ventures		74,546	—
Proceeds from capital injection from non-controlling interests		11,700	—
Repayment to a related party		—	(161,109)
Loans due from joint ventures		—	(6,001)
Interest paid		(350,877)	(300,328)
Dividend paid		(64,125)	(24,000)
Net cash generated from/(used in) financing activities		2,996,061	(416,136)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		1,204,622	716,492
Currency translation differences		2,417,219	1,689,142
		(34,071)	11,585
Cash and cash equivalents at end of the year	20	3,587,770	2,417,219

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Redco Properties Group Limited (the “Company”) was incorporated in the Cayman Islands on 14 July 2008 as an exempted company with limited liability under the Cayman Companies Law. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together with the Company, referred to as the “Group”) are principally engaged in property development, property investment and project management business in the People’s Republic of China (the “PRC”). The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”).

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of an investment property which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the consolidated financial statements.

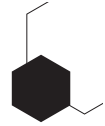
2.1.1 Changes in accounting policies and disclosures

(a) Amended standard adopted by the Group

Amendments to HKAS 7 “Statement of cash flows” is effective for annual periods beginning on or after 1 January 2017. The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 40 “Investment property” is early adopted for annual periods beginning on or after 1 January 2017. The amendments further defined the transfer to or from investment property. For more details of the effect on the Group’s financial statements, please refer to Note 2.1.2.

Amendments as mentioned above except Amendments to HKAS 40 “Investment property” are not expected to have a material effect on the Group’s operating results, financial position or comprehensive income.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

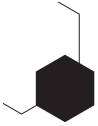
(b) Amendments to existing standards effective in 2017 but not relevant to the Group

Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	Disclosure of interest in other entities

(c) New and amended standards and interpretations not yet adopted

Certain new and amended accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 2	Classification and measurement of share-based and payment transactions	1 January 2018
Amendments to HKFRS 4	Insurance contracts	1 January 2018
Amendments to annual improvement project HKFRS 1 and HKAS 28	Annual improvements 2014 – 2016 cycle	1 January 2018
HKFRS 9	Financial instruments	1 January 2018 (i)
HKFRS 15	Revenue from contracts with customers	1 January 2018 (ii)
Amendments to HKFRS 15	Clarifications to HKFRS 15	1 January 2018 (ii)
HK(IFRIC)-Int 22	Foreign currency translations and advance considerations	1 January 2018
HKFRS 16	Leases	1 January 2019 (iii)
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(c) New and amended standards and interpretations not yet adopted (Continued)

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except those set out below:

(i) HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group does not have any debt or equity instruments that are currently classified as available-for-sale (“AFS”). Accordingly, the Group does not expect the new guidance to affect the classification and measurement of the financial asset.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss (“FVPL”) and the Group does not have any such liabilities. The derecognition rules have been transferred from Hong Kong Accounting Standards (“HKAS”) 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(c) New and amended standards and interpretations not yet adopted (Continued)

(i) HKFRS 9 Financial Instruments (Continued)

Impact (Continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparative figures for 2017 will not be restated.

(ii) HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

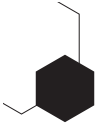
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time.
- The timing of revenue recognition for sale of completed properties, which is currently based on whether significant risk and reward of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transferred to the customer under the control transfer model.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(c) New and amended standards and interpretations not yet adopted (Continued)

(ii) HKFRS 15 Revenue from Contracts with Customers (Continued)

Impact (Continued)

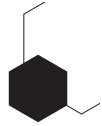
Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected: (Continued)

- The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financing component exists in that contract.
- The Group provides different incentives to customers when they sign a property sale contract. Certain incentives (e.g. free gift and property management service) represent separate performance obligations in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which does not represent fair value of good or service provided by the customer.
- Certain costs incurred for obtaining a pre-sale property contract (e.g. sale commission), which is currently expensed off in profit or loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.
- Presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

Date of adoption by the Group

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group is estimating the overall impact of the above on the Group's retained earnings on 1 January 2018.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (Continued)***2.1.1 Changes in accounting policies and disclosures (Continued)***(c) New and amended standards and interpretations not yet adopted (Continued)****(iii) HKFRS 16 Leases***Nature of change*

HKFRS 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

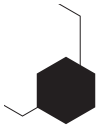
The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,176,000. The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

Date of adoption by the Group

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and early adoption of amendments to HKAS 40 “Investment property”

In previous years, an investment property of a joint venture of the Group was carried at historical cost less accumulated depreciation and impairment losses (the “Cost Model”). With effect from 1 January 2017, the Group changed its accounting policy for the investment properties to the fair value model under HKAS 40 (the “Fair Value Model”).

The change was made to increase the relevance of financial data to the users of the financial statements by taking into consideration of the following factors:

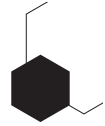
- a) The market values of the investment properties are volatile and are influenced by various factors which are associated with the underlying operation and performance of the Group. Adoption of the fair value model under HKAS 40 could provide a more appropriate and relevant information about the Group’s result and financial position.
- b) A majority of comparable companies within the Hong Kong and PRC real estate industry adopt the Fair Value Model. Therefore, using the Fair Value Model can align the Group’s accounting policy with industry peers and improve comparability of the Group’s financial performance with industry peers.

The change in accounting policy of investment properties has been accounted for retrospectively. The comparative figures have been restated.

The Group has early adopted amendments to HKAS 40 in respect of the transfer of properties under development for sales to investment properties under fair value model.

The effect of the changes in accounting policy and early adoption of amendments to HKAS 40 on the consolidated financial statement is as follows:

	31 December 2017 RMB’ 000	31 December 2016 RMB’ 000	1 January 2016 RMB’ 000
Effect of the changes in accounting policy			
Consolidated balance sheet			
Increase in investments accounted for using the equity method	67,309	48,009	31,572
Increase in retained earnings	(67,309)	(48,009)	(31,572)
Consolidated statement of profit or loss			
Increase in share of profit of investments accounted for using the equity method, net	19,300	16,437	11,150
Increase in profit attributable to owners of the Company for the year	19,300	16,437	11,150
Increase in basic and diluted earnings per share (RMB cents per share)	0.54	0.46	0.34



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and early adoption of amendments to HKAS 40 "Investment property" (Continued)

The effect of the changes in accounting policy and early adoption of amendments to HKAS 40 on the consolidated financial statement is as follows: (Continued)

	31 December 2017 RMB' 000	31 December 2016 RMB' 000	1 January 2016 RMB' 000
Effect of early adoption of amendments to HKAS 40			
Consolidated balance sheet			
Increase in an investment property	434,669	—	—
Decrease in properties under development for sale	(75,633)	—	—
Increase in deferred income tax liabilities	(89,759)	—	—
Increase in retained earnings	(269,277)	—	—
Consolidated statement of profit or loss			
Increase in fair value gain on an investment property	359,036	—	—
Increase in income tax expense	(89,759)	—	—
Increase in profit attributable to owners of the Company for the year	<u>269,277</u>	<u>—</u>	<u>—</u>
Increase in basic and diluted earnings per share (RMB cents per share)	<u>7.58</u>	<u>—</u>	<u>—</u>

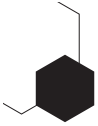
2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 *Subsidiaries (Continued)*

2.2.1 *Consolidation (Continued)*

(a) **Business combinations** (Continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the business acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

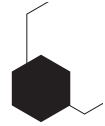
Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) **Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) **Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 *Subsidiaries (Continued)*

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 *Investments accounted for using the equity method*

2.3.1 *Joint arrangements*

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investment in a joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The joint ventures are accounted for using the equity method.

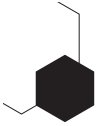
Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3.2 *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Investments accounted for using the equity method (Continued)

2.3.2 Associates (Continued)

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

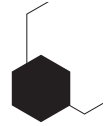
2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong dollars ("HK\$"), and the consolidated financial statements are presented in RMB, which is the Company's and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within “finance income” and “finance costs”. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within “other (losses)/gains, net”.

(iii) Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- share capital is translated at the historical rate;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which cash income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

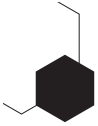
Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvement	shorter of the lease term or useful lives
Furniture and office equipment	3 to 5 years
Motor vehicles	3 to 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.9).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 *Property, plant and equipment (Continued)*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “other (losses)/gains, net” in the consolidated statement of profit or loss.

2.7 *Investment property*

An investment property is held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are presented in the consolidated statement of profit or loss.

2.8 *Goodwill*

Goodwill arises on the acquisition of a subsidiary and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

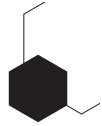
For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.9 *Impairment of investment in joint ventures, associate and non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group applies the impairment assessment requirement of HKAS 39 to determine whether it is necessary to recognise any additional impairment loss in respect to its net investment in joint venture. Impairment testing of the interest in joint venture and associates is required upon receiving dividends from the investment if the dividend exceeds the total comprehensive income of the joint venture or the associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill. Impairment losses and reversal, if any, are recognised in accordance with HKAS 36.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Properties under development for sale and completed properties for sale

Properties under development for sale and completed properties held for sale are included in current assets at the lower of cost and net realisable value. Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights, borrowing costs on qualifying assets and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.11 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal company classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal company classified as held for sale are presented separately from the other assets in the consolidated balance sheet. The liabilities of a disposal company classified as held for sale are presented separately from other liabilities in the consolidated balance sheet.

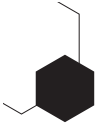
2.12 Financial assets

2.12.1 Classification

The Group's financial assets are classified as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables, deposits and prepayments", "amounts due from joint ventures", "amounts due from associates", "amounts due from non-controlling interests", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheet.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

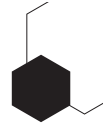
2.14 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 *Impairment of financial assets (Continued)*

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.15 *Cash and cash equivalents*

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.16 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

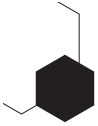
2.17 *Construction contract*

A construction contract is defined by HKAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Construction contract (Continued)

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

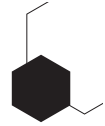
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

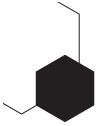
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and a joint venture operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 *Current and deferred income tax (Continued)*

(b) *Deferred income tax (Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, joint ventures and associates, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 *Revenue recognition*

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of discounts, returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) *Sale of properties*

Revenue from sale of properties is recognised when the significant risks and rewards of the properties are transferred to the buyers, which is when the construction of the relevant properties have been completed, delivery of the properties have been completed pursuant to the sales agreements and collectability of related receivables pursuant to the sale agreements is reasonably assured. Deposits and instalments received on properties sold prior to transfer of the significant risks and rewards of the properties are included as receipt in advance under current liabilities.

(ii) *Construction and sea reclamation service income*

Revenue from construction and sea reclamation services based on the stage of completion of the construction as detailed in Note 2.17.

(iii) *Property management income*

Revenue arising from property management is recognised in the accounting period in which the services are rendered.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.23 Revenue recognition (Continued)***(iv) Interest income*

Interest income is recognised using the effective interest method.

2.24 Employee benefits*(i) Pension obligations*

The Group operates a mandatory provident fund scheme (“MPF Scheme”) in Hong Kong. The assets of the MPF Scheme are held in a separate trustee-administered fund. Both the Group and the employees are required to contribute 5% of the employees relevant income up to a maximum of HK\$1,500 per employee per month.

The Group also participates in an employee social security plan (the “Plan”) as required by the regulations in the PRC. The Group is required to make welfare contributions to the Plan which is based on certain percentage of the employees’ relevant income.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Bonus plans

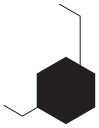
The expected cost of bonus plan is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.25 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Financial guarantee liabilities

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within general and administrative expenses.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and cash flow and fair value interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management of each individual entity within the Group.

(i) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk primarily with respect to HK\$ and United States dollars ("US\$").

The Group's assets and liabilities, and transactions arising from its operations primarily do not expose it to material foreign exchange risk. Other than certain bank balances and bank borrowings, the Group's assets and liabilities are primarily denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB. The Group does not hedge its exposure to the foreign currencies.

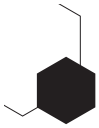
During the year ended 31 December 2017, the Group recorded other comprehensive gain of exchange differences arising from translation of functional currency to presentation currency of RMB171,999,000 (2016: RMB146,687,000), attributable to the depreciation of the RMB against HK\$ and US\$. The translation risk is not hedged.

As at 31 December 2017 and 2016, certain of the Group's cash and bank balances were denominated in HK\$ and US\$, details of which have been disclosed in Note 20.

As at 31 December 2017 and 2016, the Group was exposed to foreign exchange risk primarily with respect to the potential effects on profit or loss included the impacts from translation in intercompany balances which are not denominated in functional currency of respective group companies.

RMB appreciation against HK\$ and US\$ during the year is the major reason for the exchange differences recognised by the Group. Further depreciation of HK\$ and US\$ against RMB will affect the Group's financial position and results of operations.

The following table shows that, if RMB had strengthened/weakened by 5% against HK\$, with all other variables held constant, post-tax profit for the year change, mainly as a result of foreign exchange losses/gains on translation of HK\$ denominated amounts due from/(to) fellow subsidiaries and trade and other payables.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(i) Foreign exchange risk (Continued)

	2017 RMB' 000	2016 RMB' 000
Post-tax profit (decrease)/increase		
RMB strengthened by 5%	(4,393)	(25,757)
RMB weakened by 5%	4,393	25,757

The US\$ denominated borrowings (Note 24) is in the Company which functional currency is HK\$, since HK\$ is pegged to US\$, there is no significant foreign exchange risk with respect to US\$.

(ii) Cash flow and fair value interest rate risks

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Except for bank deposits with variable interest, the Group has no other significant interest-bearing assets.

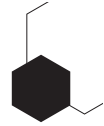
The Group's exposure to changes in interest rates is mainly attributable to its borrowings from bank. Bank borrowings of variable rates expose the Group to cash flow interest rate risk. The senior notes at a fixed rate expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 24.

Management does not anticipate significant impact to the senior notes resulted from the changes in market interest rates. Moreover, given the stability of the interest rate in the recent financial market, in the opinion of the directors, the exposure of the senior notes to fair value interest rate risk is considered to be low. Therefore no sensitivity analysis is performed.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

At 31 December 2017 and 2016, if interest rates on borrowings at floating rates had been 100 basis points higher/lower with all other variables held constant, the post-tax profit and capitalised interest for the years ended 31 December 2017 and 2016 would have changed as follows:

	2017 RMB' 000	2016 RMB' 000
Post-tax profit (decrease)/increase		
– 100 basis points higher	(1,368)	(1,647)
– 100 basis points lower	1,368	1,647
Capitalised interest increase/(decrease)		
– 100 basis points higher	46,766	25,768
– 100 basis points lower	(46,766)	(25,768)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk

In managing the liquidity risk, the Group regularly and closely monitors its current and expected liquidity requirements to maintain its rolling cash flow at a level which is considered adequate by the Group to finance the Group’s operations and to maintain sufficient cash to meet its business development requirements.

Management has periodically prepared cash flow projections and the Group has a number of alternative plans to offset the potential impact on the Group’s business development and current operation, should there be circumstances that the anticipated cash flow may be affected by any unexpected changes in the PRC economic conditions. The Company’s directors consider that the Group will be able to maintain sufficient financial resources to meet its needs. Unused facilities of the Group as of 31 December 2017 and 2016 have been disclosed in Note 32.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dates to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank’s sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	On demand RMB’ 000	Less than 1 year RMB’ 000	Between 1 and 2 years RMB’ 000	Between 2 and 5 years RMB’ 000	Over 5 years RMB’ 000	Total RMB’ 000
At 31 December 2017						
Term loans subject to repayment on demand clause	163,836	—	—	—	—	163,836
Bank borrowings and interest payments	—	1,732,358	2,319,812	1,965,593	—	6,017,763
Senior notes and interest payments	—	1,747,551	—	—	—	1,747,551
Trade and other payables (excluding non-financial liabilities)	—	1,788,511	—	—	—	1,788,511
Amounts due to non-controlling interests	—	116,414	—	—	—	116,414
Amounts due to joint ventures	—	140,209	—	—	—	140,209
Financial guarantees (Note 31)	—	1,401,594	2,542,389	2,100,581	7,874	6,052,438
	<u>163,836</u>	<u>6,926,637</u>	<u>4,862,201</u>	<u>4,066,174</u>	<u>7,874</u>	<u>16,026,722</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

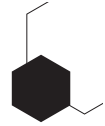
3.1 Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

	On demand RMB' 000	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Total RMB' 000
At 31 December 2016					
Term loans subject to repayment on demand clause	219,600	—	—	—	219,600
Bank borrowings and interest payments	—	238,766	802,200	1,851,298	2,892,264
Senior notes and interest payments	—	119,221	119,221	867,061	1,105,503
Trade and other payables (excluding non-financial liabilities)	—	2,010,374	—	—	2,010,374
Amounts due to non-controlling interests	—	451,308	—	—	451,308
Amount due to a joint venture	—	65,663	—	—	65,663
Financial guarantees (Note 31)	—	947,184	1,849,953	2,303,178	5,100,315
	<u>219,600</u>	<u>3,832,516</u>	<u>2,771,374</u>	<u>5,021,537</u>	<u>11,845,027</u>

The table below analyses the term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates.

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Total RMB' 000
31 December 2017	29,048	28,236	117,182	174,466
31 December 2016	53,274	30,848	159,350	243,472



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 *Financial risk factors (Continued)*

(iv) *Credit risk*

Credit risk arises from bank deposits, trade receivables, other receivables and amounts due from joint ventures, associates and non-controlling interests.

For trade and other receivables and amounts due from joint ventures, associates and non-controlling interests, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The directors are of the opinion that the risk of default by counterparties is low.

The Group reviews the recoverable amount of each individual trade receivable balance at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

All the bank deposits are placed with banks with sound credit ratings to mitigate the risk. The Group does not hold any collateral as security.

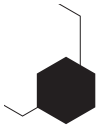
The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage loan during the guarantee period, the bank holding the guarantee may demand the Group to repay the outstanding amount under the loan and any interest accrued thereon. Under such circumstances, the Group is able to retain the customers' deposit and resell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

3.2 *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustment to it in light of changes in economic condition.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or to obtain bank and other borrowing.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****3 FINANCIAL RISK MANAGEMENT (CONTINUED)****3.2 Capital risk management (Continued)**

The Group monitors capital on the basis of the gearing ratio. Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balance (including cash and cash equivalent and restricted cash). Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 RMB' 000	2016 RMB' 000
Total borrowings (Note 24)	7,243,219	3,629,232
Less: Cash and cash equivalents and restricted cash (Note 20)	(4,905,512)	(3,603,474)
Net debt	2,337,707	25,758
Total equity	4,609,300	3,405,035
Total capital	6,947,007	3,430,793
Gearing ratio	34%	1%

3.3 Fair value estimation

Level of the inputs to valuation techniques used to measure fair value of the Group's financial instruments as at 30 June 2017. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair values of the trade receivables, other receivables and deposits, cash and cash equivalents, restricted cash, amounts due from non-controlling interests, amounts due from joint ventures, amounts due from associates, trade and other payables and amounts due to joint ventures at 31 December 2017 approximate their carrying amounts due to their short term maturities.

See Note 14 for disclosures of the investment property that is measured at fair value.

All the resulting fair value estimates are included in level 3 of the fair value hierarchy.

There were no transfers among levels 1, 2 and 3 during the year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Valuation of the investment property

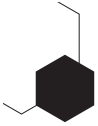
The Group carries its investment property at fair value with changes in the fair value recognised in the consolidated statement of profit or loss. The fair value of investment property was determined by using valuation technique and management updates their assessment of the fair value of the investment property, taking into account the key valuation assumptions. Details of the judgments and assumptions have been disclosed in Note 14.

4.2 Classification of investments

The Group made investments that involved complex terms and arrangements during the year. Judgement is required in determining the appropriate classification for these investments including assessing the relevant activities of the investee companies and its decisions making process on those activities that involving the Group, if any and its other investors, the rights and power of the Group and other investors on the investee companies and the Group's returns from the investments. Different conclusions around these judgements may materially impact how these investments presented and measured in the consolidated financial statements of the Group.

4.3 Provision for impairment of properties held for sale or under development

The management makes provision for impairment of properties held or under development for sale based on the estimate of the recoverable amount of the properties. Given the volatility of the property market in the PRC, the actual recoverable amount may be higher or lower than the estimate made as at the end of the reporting period. Any increase or decrease in the provision would affect the Group's operating performance in future years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 *Current taxation and deferred taxation*

The Group is subject to taxation in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are transactions and calculations for which the ultimate tax determination is uncertain (for example, certain expenses such as entertainment and advertising expenses may not be finally deductible) during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

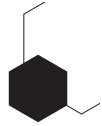
4.5 *Land appreciation tax*

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land cost, borrowing costs and all property development expenditures.

The subsidiaries of the Group engaging in property development business in the PRC are subject to land appreciation taxes, which have been included in the income tax expenses. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and provisions of land appreciation taxes in the period in which such determination is made.

4.6 *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 12).



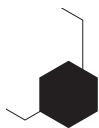
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION

The Executive Directors have been identified as the CODM. Management determines the operating segments based on the Group's internal reports, which are submitted to the Executive Directors for performance assessment and resources allocation.

The Executive Directors consider the business from a geographical perspective and assesses the performance of property development in four reportable operating segments, namely Greater Western Taiwan Straits Economic Zone, Central and Western Regions, Bohai Economic Rim, Pearl River Delta Region and Others. The Group's construction and sea reclamation services, and property investment and project management businesses are considered together with the property development segments and included in the relevant geographic operating segment. "Others" segment represents provision of design services to group companies, corporate support functions, property management services (services provided to both internal or external customers) and investment holdings businesses.

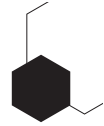
The Executive Directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of depreciation, share of profit of investments accounted for using the equity method, finance income, finance costs and income tax expense from the operating segments. Other information provided, except as noted below, to the Executive Directors is measured in a manner consistent with that in the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

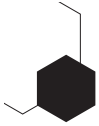
	Greater Western Taiwan Straits Economic Zone RMB' 000	Central and Western Regions RMB' 000	Bohai Economic Rim RMB' 000	Pearl River Delta Region RMB' 000	Others RMB' 000	Total RMB' 000
Year ended						
31 December 2017						
Total revenue	1,719,155	2,731,163	1,829,283	449,731	18,000	6,747,332
Less: Inter-segment revenue	—	—	—	—	(13,265)	(13,265)
Revenue (from external customers)	1,719,155	2,731,163	1,829,283	449,731	4,735	6,734,067
Segment results	183,385	702,674	634,102	106,165	(78,516)	1,547,810
Depreciation	(2,512)	(438)	(1,283)	(585)	(1,779)	(6,597)
Operating profits/(losses)	180,873	702,236	632,819	105,580	(80,295)	1,541,213
Share of profit of investments accounted for using the equity method, net	77,822	—	—	—	5,048	82,870
Finance income	10,461	21,904	9,046	1,052	2,266	44,729
Finance costs	—	—	—	—	(70,945)	(70,945)
Income tax expense	(80,269)	(284,012)	(176,731)	(9,837)	(56,886)	(607,735)
Profit/(loss) for the year	<u>188,887</u>	<u>440,128</u>	<u>465,134</u>	<u>96,795</u>	<u>(200,812)</u>	<u>990,132</u>
At 31 December 2017						
Total segment assets	3,380,938	4,648,435	8,948,799	1,305,368	1,587,160	19,870,700
Other unallocated corporate assets						1,307
Total assets						<u>19,872,007</u>
Additions to: Property, plant and equipment	<u>7,707</u>	<u>845</u>	<u>1,175</u>	<u>1,123</u>	<u>843</u>	<u>11,693</u>
Total segment liabilities	<u>(2,723,517)</u>	<u>(1,435,831)</u>	<u>(5,867,006)</u>	<u>(515,554)</u>	<u>(4,720,799)</u>	<u>(15,262,707)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Greater Western Taiwan Straits Economic Zone RMB' 000	Central and Western Regions RMB' 000	Bohai Economic Rim RMB' 000	Pearl River Delta Region RMB' 000	Others RMB' 000	Total RMB' 000
Year ended						
31 December 2016						
Total revenue	2,463,369	500,499	753,671	1,514,955	59,620	5,292,114
Less: Inter-segment revenue	—	—	—	—	(22,024)	(22,024)
Revenue (from external customers)	2,463,369	500,499	753,671	1,514,955	37,596	5,270,090
Segment results	515,798	171,906	62,330	221,139	(18,352)	952,821
Depreciation	(2,272)	(484)	(1,690)	(697)	(2,480)	(7,623)
Operating profits/(losses)	513,526	171,422	60,640	220,442	(20,832)	945,198
Share of profit of investments accounted for using the equity method, net (restated) (Note 2.1.2)	5,629	—	—	—	983	6,612
Finance income	4,445	2,534	2,648	388	5,287	15,302
Finance costs	(80)	—	—	—	(6,284)	(6,364)
Income tax (expense)/credit	(249,046)	(79,770)	(23,833)	(91,660)	38,326	(405,983)
Profit for the year (restated)	274,474	94,186	39,455	129,170	17,480	554,765
At 31 December 2016						
Total segment assets (restated) (Note 2.1.2)	3,801,257	3,749,109	5,731,804	835,521	735,001	14,852,692
Other unallocated corporate assets						2,014
Total assets (restated)						14,854,706
Additions to: Property, plant and equipment	386	629	1,453	24	1,924	4,416
Total segment liabilities	(2,463,539)	(3,452,432)	(3,059,820)	(215,468)	(2,258,412)	(11,449,671)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2017 RMB' 000	2016 RMB' 000
Breakdown of revenue		
Sales of properties	6,324,976	5,155,966
Construction and sea reclamation services	378,443	76,528
Property management services	—	37,596
Project management services	30,648	—
	<u>6,734,067</u>	<u>5,270,090</u>

Geographical information

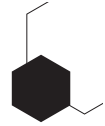
Revenue by geographical location is determined on the basis of the location of sales of properties or services rendered. All of the Group's revenue generated from the PRC.

Non-current assets by geographical location are determined based on the location of the relevant assets. The Group's non-current assets are mainly located in the PRC.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and general and administrative expenses are analysed as follows:

	2017 RMB' 000	2016 RMB' 000
Auditor's remuneration		
- Audit services	3,764	3,118
- Non-audit services	519	—
Cost of properties sold	4,851,390	3,916,850
Cost of construction and sea reclamation service	97,768	53,760
Depreciation of property, plant and equipment (Note 11)	6,597	7,623
Employee benefit expenses (Note 8)	146,193	140,812
Entertainment	20,285	9,657
Marketing and advertising costs	129,559	95,092
Operating lease payments	6,099	4,547
Office and travelling expenses	45,202	42,648
Business taxes and surcharges	107,252	185,104
Land use and real estate taxes	8,088	6,254
Legal and professional fees	38,971	9,983
Donation	630	2,038
Other selling and marketing and general and administrative expenses	24,235	18,643
Total cost of sales, selling and marketing expenses and general and administrative expenses	<u>5,486,552</u>	<u>4,496,129</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OTHER (LOSSES)/GAINS, NET

	2017 RMB' 000	2016 RMB' 000
Gain on disposal of a subsidiary (Note 29)	1,566	123,036
Gain on disposal of investment in a joint venture (Note 15(d))	11,752	—
Gains on bargain purchase arising from acquisition of subsidiaries (Note 28)	1,150	—
Gain on disposal of property, plant and equipment	226	184
Exchange (losses)/gains (Note a)	(33,939)	28,298
Compensation received in relation to the termination of a contract	—	11,370
Penalties income	2,905	1,844
Others	537	6,505
	<u>(15,803)</u>	<u>171,237</u>

Note a:

The exchange (losses)/gains mainly arises from the year end re-translation of RMB-denominated monetary assets, comprising mainly inter-company balances, on the balance sheets of the companies within the Group which use HK\$ as their functional currency. Subsequently, when these balance sheets are translated into RMB, the presentation currency of the Group, a corresponding debit arises, and this is included in other comprehensive income under the caption of "Currency translation differences".

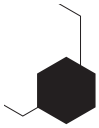
8 EMPLOYEE BENEFIT EXPENSES

	2017 RMB' 000	2016 RMB' 000
Salaries and allowances	124,843	117,766
Sale commission and bonuses	32,226	32,605
Pension costs (Note a)	14,452	11,815
Other staff welfare	14,089	10,605
	<u>185,610</u>	<u>172,791</u>
Less: Capitalized in properties under development	(39,417)	(31,979)
	<u>146,193</u>	<u>140,812</u>

(a) Pension cost - Defined Contribution Plan

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income, subject to a ceiling of HK\$1,500 per month per head.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Pension cost - Defined Contribution Plan (Continued)

Details of the retirement scheme contributions, which have been dealt with in the consolidated statement of profit or loss are as follows:

	2017 RMB' 000	2016 RMB' 000
Gross scheme contributions	14,452	11,815
Less: capitalized in properties under development	(3,425)	(2,669)
	<u>11,027</u>	<u>9,146</u>

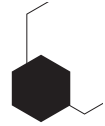
(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include three (2016: three) directors whose emoluments are reflected in the analysis presented in Note 38. The emoluments payable to the remaining two (2016: two) individuals during the year are as follows:

	2017 RMB' 000	2016 RMB' 000
Salaries and other short-term benefits	3,111	2,365
Retirement scheme contributions	50	48
	<u>3,161</u>	<u>2,413</u>

The emoluments fall within the following bands:

	2017	2016
Nil to HK\$1,000,000 (equivalent to RMB865,200)	—	—
HK\$1,000,001 to HK\$2,000,000 (equivalent to RMB865,201 to RMB1,730,400)	2	2



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCE INCOME AND COSTS

	2017 RMB' 000	2016 RMB' 000
Finance income from bank deposits	19,012	15,302
Finance income from loans to an associate and non-controlling interests (Note 15 (a) and Note 34)	25,717	—
	<u>44,729</u>	<u>15,302</u>
Finance costs on borrowings	351,920	282,570
Less: finance costs capitalised in qualifying assets	(339,006)	(276,206)
	<u>12,914</u>	<u>6,364</u>
Loss on early redemption of Senior Notes due 2019 (Note 24)	58,031	—
	<u>70,945</u>	<u>6,364</u>
Weighted average interest rate on capitalised borrowings (per annum)	<u>7.49%</u>	<u>8.55%</u>

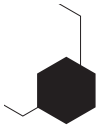
10 INCOME TAX EXPENSE

Subsidiaries established and operating in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2017 (2016: 25%).

No provision has been made for Hong Kong profits tax as the companies in Hong Kong did not generate any assessable profits for the year ended 31 December 2017 (2016: Nil).

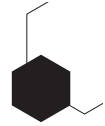
PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures.

	2017 RMB' 000	2016 RMB' 000
Current income tax		
PRC corporate income tax	392,597	360,409
PRC land appreciation tax	179,038	247,595
Deferred income tax (Note 16)	36,100	(202,021)
	<u>607,735</u>	<u>405,983</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****10 INCOME TAX EXPENSE (CONTINUED)**

The tax on the Group's profit before income tax differs from the theoretical amount that would arise by applying the statutory tax rate in the PRC to profits of the group companies as follows:

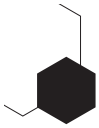
	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Profit before income tax	1,597,867	960,748
Calculated at PRC Corporate income tax rate of 25%	399,467	240,187
Expenses not deductible for tax purpose	32,078	59,565
Income not subject to taxation	(26,418)	(41,742)
Unrecognised tax losses	8,947	6,883
Provision for land appreciation tax	179,038	247,595
Tax effect on land appreciation tax	(44,760)	(61,899)
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	59,383	(54,486)
Others	—	9,880
Income tax expense	607,735	405,983



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB' 000	Furniture and office equipment RMB' 000	Motor vehicles RMB' 000	Total RMB' 000
Year ended 31 December 2016				
Opening net book amount	21,858	7,075	7,245	36,178
Additions	—	3,552	864	4,416
Acquisitions of subsidiaries	—	329	—	329
Disposals	—	(126)	(45)	(171)
Disposals of subsidiaries	—	(1,106)	(25)	(1,131)
Depreciation	(2,105)	(3,141)	(2,997)	(8,243)
Exchange differences	2	8	35	45
Closing net book amount	<u>19,755</u>	<u>6,591</u>	<u>5,077</u>	<u>31,423</u>
As at 31 December 2016				
Cost	28,024	17,473	18,555	64,052
Accumulated depreciation	<u>(8,269)</u>	<u>(10,882)</u>	<u>(13,478)</u>	<u>(32,629)</u>
Net book amount	<u>19,755</u>	<u>6,591</u>	<u>5,077</u>	<u>31,423</u>
Year ended 31 December 2017				
Opening net book amount	19,755	6,591	5,077	31,423
Additions	4,702	4,387	2,604	11,693
Acquisitions of subsidiaries (Note 28)	—	357	597	954
Disposals	—	(80)	(638)	(718)
Disposal of a subsidiary (Note 29)	—	(4)	—	(4)
Depreciation	(1,457)	(2,346)	(3,028)	(6,831)
Assets classified as held for sale (Note 21)	—	(134)	(332)	(466)
Exchange differences	(1)	(5)	444	438
Closing net book amount	<u>22,999</u>	<u>8,766</u>	<u>4,724</u>	<u>36,489</u>
As at 31 December 2017				
Cost	32,643	21,672	19,147	73,462
Accumulated depreciation	<u>(9,644)</u>	<u>(12,906)</u>	<u>(14,423)</u>	<u>(36,973)</u>
Net book amount	<u>22,999</u>	<u>8,766</u>	<u>4,724</u>	<u>36,489</u>

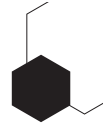
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Depreciation charges were capitalised or expensed in the following categories in the consolidated balance sheet and the consolidated statement of profit or loss:

	2017 RMB' 000	2016 RMB' 000
Properties under development for sale	234	620
General and administrative expenses (Note 6)	6,597	7,623
	<u>6,831</u>	<u>8,243</u>

12 GOODWILL

	RMB' 000
Year ended 31 December 2016	
Opening net book amount	49,535
Impairment of goodwill	—
Closing net book amount	<u>49,535</u>
At 31 December 2016	
Cost	138,659
Accumulated impairment	(89,124)
Net book amount	<u>49,535</u>
Year ended 31 December 2017	
Opening net book amount	49,535
Impairment of goodwill	(49,535)
Closing net book amount	<u>—</u>
At 31 December 2017	
Cost	138,659
Accumulated impairment	(138,659)
Net book amount	<u>—</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 GOODWILL (CONTINUED)

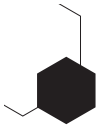
Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) as at 31 December 2017 as follows:

	Cost RMB' 000	Accumulated impairment RMB' 000	Net book amount RMB' 000
Mix Kingdom Redco			
– West phase 1	3,918	(3,918)	—
– West phase 3	13,581	(13,581)	—
– West phase 4	22,161	(22,161)	—
– West phase 5	44,682	(44,682)	—
– East phase 1A	7,061	(7,061)	—
– East phase 1B	6,806	(6,806)	—
– East phase 2	17,834	(17,834)	—
– East phase 3	17,258	(17,258)	—
Jiangxi Hengfeng Property Services Co., Ltd.	4,423	(4,423)	—
Shandong Xin Guangyou Properties Co., Ltd.	364	(364)	—
Jinan Redco Weisheng Property Development Co., Ltd.	571	(571)	—
	<u>138,659</u>	<u>(138,659)</u>	<u>—</u>

Goodwill is allocated to the Group's cash-generating units (CGUs) as at 31 December 2016 as follows:

	Cost RMB' 000	Accumulated impairment RMB' 000	Net book amount RMB' 000
Mix Kingdom Redco			
– West phase 1	3,918	—	3,918
– West phase 3	13,581	(13,581)	—
– West phase 4	22,161	(22,161)	—
– West phase 5	44,682	—	44,682
– East phase 1A	7,061	(7,061)	—
– East phase 1B	6,806	(6,806)	—
– East phase 2	17,834	(17,834)	—
– East phase 3	17,258	(17,258)	—
Jiangxi Hengfeng Property Services Co., Ltd.	4,423	(4,423)	—
Shandong Xin Guangyou Properties Co., Ltd.	364	—	364
Jinan Redco Weisheng Property Development Co., Ltd.	571	—	571
	<u>138,659</u>	<u>(89,124)</u>	<u>49,535</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****12 GOODWILL (CONTINUED)**

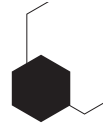
The Group acquired several subsidiaries which are engaged in property development and property management in the PRC. Goodwill represents the excess of consideration transferred over the Group's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries. The recoverable amount of all CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the remaining operating life of the phases of Mix Kingdom Redco.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them for the year ended 31 December 2016:

	Mix Kingdom Redco West phase 1	Mix Kingdom Redco West phase 5
Sales price per sq.m (RMB)	6,190	5,700
Construction cost per sq.m (RMB)	2,900	3,300
Gross margin	53%	42%
Discount rate	10%	10%

Management has reviewed the performance of all CGUs and noted that their recoverable amounts less than their carrying amounts. The directors are of the view that there was impairment on goodwill during the year ended 31 December 2017:

	2017 RMB' 000	2016 RMB' 000
Mix Kingdom Redco		
– West phase 1	3,918	—
– West phase 5	44,682	—
Shandong Xin Guanyon Properties Co., Ltd.	364	—
Jinan Redco Weisheng Property Development Co., Ltd.	571	—
	49,535	—



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES

(a) Details of the principal subsidiaries at 31 December 2017 are set out below:

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
力高地產控股有限公司	Redco Properties Holdings Limited	The British Virgin Islands ("BVI")	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar and 1 ordinary share of nil consideration, US\$1	100%	100%	—
力創國際發展有限公司	Power Creation International Development Limited	BVI	Limited liability company	Investment holding	100 ordinary shares of 1 US dollar each, US\$100	—	100%	—
富宏控股有限公司	Max Income Holdings Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
利達集團有限公司	Maxprofit Globe Holdings Limited	BVI	Limited liability company	Investment holding	100 ordinary shares of 1 US dollar each, US\$100	—	100%	—
力泉國際投資有限公司	Power Spring International Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
盛高置業投資有限公司	Top Thrive Real Estates Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
力嘉國際投資有限公司	Li Jia International Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
創高環球投資有限公司	Top Creation Worldwide Investments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
偉力國際發展有限公司	Wei Li International Developments Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
力高教育國際有限公司	Redco Education International Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
盛業國際投資有限公司	Shengye International Investments Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
偉盛國際投資有限公司	Weisheng International Investments Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
偉業國際投資有限公司	Weiyee International Investments Company Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—

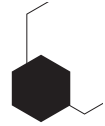


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
力高教育控股有限公司	Redco Education Holdings Limited	BVI	Limited liability company	Investment holding	1 ordinary shares of 1 US dollar each, US\$1	—	100%	—
力高集團(香港)有限公司	Redco Holdings (Hong Kong) Co. Limited	Hong Kong	Limited liability company	Investment holding	100,000 ordinary shares of 1 HK dollar each, HK\$100,000	—	100%	—
力盛國際投資有限公司	Power Thrive International Investment Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
力高投資(國際)有限公司	Redco Investment (International) Company Limited	Hong Kong	Limited liability company	Investment holding	10,000 ordinary shares of 1 HK dollar each, HK\$10,000	—	50%	50% (Note (i))
興達國際實業有限公司	Bloom Trend International Industrial Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
力高實業投資有限公司	Redco Industrial Investment Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港禦高投資有限公司	Hong Kong Royal Lofty Investments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
力高置業(香港)有限公司	Redco Properties (Hong Kong) Company Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港濱江實業有限公司	Hong Kong Bingjiang Industrial Limited	Hong Kong	Limited liability company	Investment holding	150,000,000 ordinary shares of 1 HK dollar each, HK\$150,000,000	—	100%	—
香港榮力發展有限公司	Hong Kong Wing Power Developments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港力宏投資有限公司	Hong Kong Power Profit Investments Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港盛業投資有限公司	Hong Kong Shengye Investments Company Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
香港偉盛置業有限公司	Hong Kong Weisheng Properties Company Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—

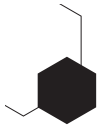


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
香港偉業控股有限公司	Hong Kong Weiye Holdings Company Limited	Hong Kong	Limited liability company	Investment holding	1 ordinary shares of 1 HK dollar each, HK\$1	—	100%	—
武漢力高置業有限公司	Wuhan Redco Property Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
上海明昌置業有限公司	Shanghai Mingchang Real Estate Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	63%	37%
力高(天津)地產有限公司	Redco (Tianjin) Real Estate Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$490,000,000 Paid up HK\$490,000,000	—	100%	—
天津力高宏業投資有限公司	Tianjin Redco Hongye Investment Co., Ltd.	PRC	Wholly owned foreign enterprise	Investment holding	Registered US\$298,000,000 Paid up US\$268,000,000	—	100%	—
天津力高基業有限公司	Tianjin Redco Jiye Co., Ltd.	PRC	Wholly owned foreign enterprise	Operation and management of cultural tourism project in the PRC	Registered RMB1,217,064,630 Paid up RMB 1,217,064,630	—	100%	—
天津力高興業文化傳播有限公司	Tianjin Redco Xingye Cultural Dissemination Co., Ltd.	PRC	Wholly owned foreign enterprise	Cultural product design consulting in the PRC	Registered RMB600,000,000 Paid up RMB 460,519,509	—	100%	—
天津力高盛業有限公司	Tianjin Redco Shengye Investment Co., Ltd.	PRC	Sino-foreign equity joint venture	Operation and management of cultural tourism project in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	70%	30%
長豐聯華置業有限公司	Changfeng Lianhua Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,750,000 Paid up RMB50,750,000	—	80%	20%
合肥力高宏業地產開發有限公司	Hefei Redco Hongye Property Development Co.,Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
合肥力泉置業有限公司	Heifei Liquan Property Co.,Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
合肥力高偉盛地產開發有限公司	Heifei Redco Weisheng Property Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	80%	20%

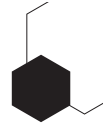


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
合肥力盛置業有限公司	Hefei Lisheng Property Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up Nil	—	100%	—
合肥力城置業有限公司	Hefei Licheng Property Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	70%	30%
合肥市偉力地產開發有限公司	Hefei Weili Property Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
合肥力宏置業有限公司	Hefei Lihong Property Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	60%	40%
合肥力嘉置業有限公司	Hefei Lijia Property Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up Nil	—	100%	—
合肥磐瑞置業有限公司	Hefei Panrui Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
合肥智越置業有限公司	Hefei Zhiyue Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
深圳興居貿易有限公司	Shenzhen Xingju Trading Co., Ltd.	PRC	Limited liability company	Trading in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	100%	—
深圳市今典設計顧問有限公司	Shenzhen Jindian Design Consulting Co., Ltd.	PRC	Limited liability company	Construction design consulting in the PRC	Registered RMB500,000 Paid up RMB500,000	—	100%	—
深圳創信工程造價諮詢有限公司	Shenzhen Chuangxin Construction Cost Consulting Co., Ltd.	PRC	Limited liability company	Construction cost consulting in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	100%	—
深圳市力高大道置業有限公司	Shenzhen Redco Dadao Real Estate Co. Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	51%	49%
深圳市力高基業地產開發有限公司	Shenzhen Redco Jiye Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
深圳力高偉力實業發展有限公司	Shenzhen Redco Weili Shiye Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	100%	—

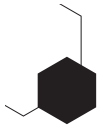


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies		Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)
深圳市力高宏業新興產業服務有限公司	Shenzhen Redco Hongye Xinxing Real Estate Service Co., Ltd	PRC	Limited liability company	Operation and management of cultural tourism project in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
中山市浩域房地產開發有限公司	Zhongshanshi Haoyu Real Estate Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	70%	30%
中山市金田房地產實業發展有限公司	Zhongshan Jintian Real Estate Industry Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB3,333,400 Paid up RMB3,333,400	—	70%	30%
深圳力高文旅產業控股有限公司	Shenzhen Redco Cultural Tourism Industry Holding Co., Ltd.	PRC	Wholly owned foreign enterprise	Operation and management of cultural tourism project in the PRC	Registered US\$1,000,000 Paid up Nil	—	100%	—
深圳力高健康醫養控股有限公司	Shenzhen Redco Healthcare & Nutrition Holding Co., Ltd.	PRC	Wholly owned foreign enterprise	Investment holding	Registered US\$1,000,000 Paid up Nil	—	100%	—
深圳力高康安健康管理有限公司	Shenzhen Redco Kangan Health Management Co., Ltd.	PRC	Limited liability company	Provision of healthcare service in the PRC	Registered RMB5,000,000 Paid up Nil	—	100%	—
深圳力高長者屋健康投資發展有限公司	Shenzhen Redco Zhangzhewu Health Investment Development Co., Ltd.	PRC	Limited liability company	Provision of healthcare service in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	51%	49%
深圳薈美家裝飾工程有限公司	Shenzhen Huimeijia Decoration Engineering Co., Ltd.	PRC	Limited liability company	Construction and design consulting in the PRC	Registered RMB5,000,000 Paid up Nil	—	100%	—
江西萬和房地產開發有限公司	Jiangxi Man Wo Property Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$300,000,000 Paid up HK\$300,000,000	—	100%	—
江西力高房地產開發有限公司	Jiangxi Redco Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
力高置業(江西)有限公司	Redco Development (Jiangxi) Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$150,000,000 Paid up HK\$150,000,000	—	50% (Note (ii))	50%

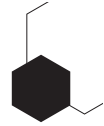


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
江西崇德房地產開發有限公司	Jiangxi Chong De Real Estate Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered HK\$200,000,000 Paid up HK\$200,000,000	—	100%	—
江西政力房地產開發有限公司	Jiangxi Zhengli Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB200,000,000 Paid up RMB200,000,000	—	51%	49%
江西力達房地產開發有限公司	Jiangxi Lida Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	78%	22%
江西怡居房地產開發有限公司	Jiangxi Yiju Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB80,000,000 Paid up RMB80,000,000	—	51%	49%
江西海祥房地產開發有限公司	Jiangxi Haixiang Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	100%	—
江西力盛置業有限公司	Jiangxi Lisheng Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	70%	30%
江西力高盛業地產開發有限公司	Jiangxi Redco Shengye Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	70%	30%
江西力高旅遊文化產業有限公司	Jiangxi Redco Travel Cultural Real Estate Co., Ltd.	PRC	Limited liability company	Investment holding	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
江西納裕實業有限公司	Jiangxi Nayu Industrial Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB12,000,000 Paid up RMB12,000,000	—	51%	49%
南昌欣榮房地產開發有限公司	Nanchang Xinrong Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	30% (Note (iii))	70%
江西力潤房地產開發有限公司	Jiangxi Lirun Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	80%	20%
江西力高偉盛企業管理有限公司	Jiangxi Redco Weisheng Business Managing Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	100%	—
江西力高國誠地產開發有限公司	Jiangxi Redco Guocheng Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB800,000	—	20% (Note (iv))	80%

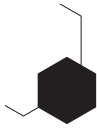


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
南昌力高長者屋健康產業有限責任公司	Nanchang Redco Zhangzhewu Health Industry Co., Ltd.	PRC	Limited liability company	Provision of healthcare service in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	51%	49%
江西城高房地產開發有限公司	Jiangxi Chenggao Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB1,000,000	—	80%	20%
力高(中國)地產有限公司	Redco (China) Real Estate Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered HK\$100,000,000 Paid up HK\$100,000,000	—	100%	—
龍岩市力高房地產開發有限公司	Longyan Redco Real Estate Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB1,000,000 Paid up nil	—	60%	40%
泉州麗興房地產開發有限公司	Quanzhou Living Real Estate Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered RMB30,000,000 Paid up RMB30,000,000	—	33% (Note(vi))	67%
咸陽力高房地產有限公司	Xianyang Redco Property Development Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	70%	30%
西安力高置業有限公司	Xi'an Redco Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up nil	—	100%	—
山東恆嘉置業有限公司	Shandong Hengjia Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB10,000,000 Paid up RMB10,000,000	—	100%	—
山東力高房地產開發有限公司	Shandong Redco Real Estate Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered HK\$100,000,000 Paid up HK\$100,000,000	—	100%	—
煙台力高置業有限公司	Yantai Redco Development Co., Ltd.	PRC	Wholly owned foreign enterprise	Property development in the PRC	Registered US\$48,000,000 Paid up US\$48,000,000	—	100%	—
山東力高江浩房地產有限公司	Shandong Redco Jianghao Real Estate Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up RMB100,000,000	—	100%	—
山東新廣友置業有限公司	Shandong Xin Guangyou Properties Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB36,734,600 Paid up RMB36,734,600	—	51%	49%

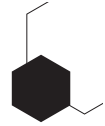


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

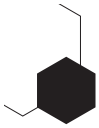
Name of companies	Place of incorporation	Kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest directly held by parent(%)	Ownership interest held by the Group(%)	Ownership interest held by non-controlling interests(%)	
濟南力高偉盛地產開發有限公司	Jinan Redco Weisheng Property Development Co.Ltd	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered RMB100,000,000 Paid up RMB 100,000,000	—	80%	20%
濟南力高宏盛地產開發有限公司	Jinan Redco Hongsheng Property Development Co.Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB18,734,600 Paid up nil	—	100%	—
山東嘉力置業有限公司	Shandong Jiali Real Estate Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up RMB50,000,000	—	80%	20%
山東力高盈力房地產有限公司	Jinan Redco Yingli Property Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB50,000,000 Paid up nil	—	80%	20%
山東力高錦盛基業房地產開發有限公司	Shandong Redco Jinsheng Jiye Property Development Co., Ltd	PRC	Limited liability company	Property development in the PRC	Registered RMB100,000,000 Paid up nil	—	100%	—
山東力高凱力房地產有限公司	Shandong Redco Kaili Real Estate Co., Ltd.	PRC	Sino-foreign equity joint venture	Property development in the PRC	Registered US\$23,529,400 Paid up US\$20,000,000	—	85%	15%
濟南東風置業有限公司	Jinan Dongfeng Real Estate Co., Ltd.	PRC	Limited liability company	Property development in the PRC	Registered RMB20,000,000 Paid up RMB20,000,000	—	90%	10%
煙台力高長者屋健康產業投資有限公司	Yantai Redco CP Homes Health Industry Investment Co., Ltd.	PRC	Limited liability company	Provision of healthcare service in the PRC	Registered RMB1,000,000 Paid up RMB1,000,000	—	51%	49%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****13 SUBSIDIARIES (CONTINUED)**

(a) Details of the principal subsidiaries at 31 December 2017 are set out below: (Continued)

Note:

- (i) Although the Group owns not more than half of the equity interest in Redco Investment (International) Co., Ltd. (“Redco Investment”), it is able to control the financing and operating decisions since the Group and the other shareholder agreed that the directors of the Group have the casting vote in the Board of Directors’ meeting for resolution of operating and major decisions. It follows that the Group should consolidate Redco Investment as a subsidiary in the Group’s financial statements.
- (ii) Although the Group owns not more than half of the equity interest in Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), it is able to control more than one half of the voting rights by virtue of the fact that 3 out of 5 directors are elected by the Group. The decisions are made by simple majority. It follows that the Group should consolidate Redco Development as a subsidiary in the Group’s financial statements.
- (iii) As the 70% shareholder of Nanchang Xinrong Property Development Co., Ltd (“Nanchang Xinrong”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Nanchang Xinrong and appoints 2 out of 3 directors of the board of Nanchang Xinrong. The decisions are made by simple majority. It follows that the Group should consolidate Nanchang Xinrong as a subsidiary in the Group’s financial statements.
- (iv) Although the Group owns not more than half of the equity interest in Jiangxi Redco Guocheng Real Estate Development Co., Ltd. (“Jiangxi Redco Guocheng”), it is able to control more than one half of the voting rights by virtue of the fact that 2 out of 3 directors of Jiangxi Redco Guocheng are elected by the Group and the board of Jiangxi Redco Guocheng is able to direct the activities of Jiangxi Redco Guocheng which significantly affect the returns. The decisions are made by simple majority. It follows that the Group should consolidate Jiangxi Redco Guocheng as a subsidiary in the Group’s financial statements.
- (v) As the 18% shareholder of Quanzhou Lixing Real Estate Development Co., Ltd. (“Quanzhou Lixing”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Quanzhou Lixing and appoints 2 out of 3 directors of the board of Quanzhou Lixing. The decisions are made by simple majority. It follows that the Group should consolidate Quanzhou Lixing as a subsidiary in the Group’s financial statements.
- (vi) The English names of PRC companies referred to above in this note represent management’s best efforts in translating the Chinese names of those companies as no English names have been registered or available.



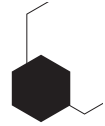
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(b) Set out below are the summarised financial information of Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng Lianhua”), Jiangxi Zhengli Property Development Co., Ltd. and its subsidiary (“Jiangxi Zhengli”) and Jiangxi Yiju Property Development Co., Ltd. (“Jiangxi Yiju”) that have non-controlling interests that are material to the Group:

Summarised balance sheet

	Redco Development		Changfeng Lianhua		Jiangxi Zhengli		Jiangxi Yiju	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Current								
Assets	444,889	450,707	875,576	1,457,576	595,724	1,716,370	653,400	699,664
Liabilities	(207,502)	(212,085)	(395,761)	(1,141,827)	(205,041)	(1,450,821)	(473,543)	(379,490)
Total net current assets/(liabilities)	237,387	238,622	479,815	315,749	390,683	265,549	179,857	320,174
Non-current								
Assets	—	—	318	375	3,196	9,082	567	999
Liabilities	—	—	(6,991)	(17,901)	—	—	—	(199,900)
Total non-current net (liabilities)/assets	—	—	(6,673)	(17,526)	3,196	9,082	567	(198,901)
Net assets/(liabilities)	237,387	238,622	473,142	298,223	393,879	274,631	180,424	121,273



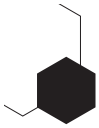
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SUBSIDIARIES (CONTINUED)

(b) Set out below are the summarised financial information of Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng Lianhua”), Jiangxi Zhengli Property Development Co., Ltd. (“Jiangxi Zhengli”) and Jiangxi Yiju Property Development Co., Ltd. and its subsidiary (“Jiangxi Yiju”) that have non-controlling interests that are material to the Group: (Continued)

Summarised statement of profit or loss

	Redco Development		Changfeng Lianhua		Jiangxi Zhengli		Jiangxi Yiju	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Net Revenue	—	—	815,175	349,013	1,162,258	1,953,273	320,962	475,419
(Loss)/profit before income tax	(1,235)	(179)	361,609	174,458	136,735	222,109	88,379	66,512
Income tax expense	—	—	(186,690)	(78,004)	(17,847)	(92,436)	(29,229)	(16,722)
Total comprehensive (loss)/income	(1,235)	(179)	174,919	96,454	119,248	129,673	59,150	49,790
(Loss)/profit allocated to non-controlling interests	(618)	(90)	34,984	19,290	58,432	63,540	28,984	24,397



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

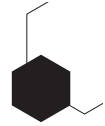
13 SUBSIDIARIES (CONTINUED)

(b) Set out below are the summarised financial information of Redco Development (Jiangxi) Co., Ltd. (“Redco Development”), Changfeng Lianhua Real Estate Co., Ltd. (“Changfeng Lianhua”), Jiangxi Zhengli Property Development Co., Ltd. and its subsidiary (“Jiangxi Zhengli”) and Jiangxi Yiju Property Development Co., Ltd. (“Jiangxi Yiju”) that have non-controlling interests that are material to the Group: (Continued)

Summarised statement of cash flows

	Redco Development		Changfeng Lianhua		Jiangxi Zhengli		Jiangxi Yiju	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Cash (used in)/ generated from operating activities	(1,030)	(7,169)	(69,154)	87,383	(188,068)	146,612	252,433	101,869
Income tax paid	—	—	(78,478)	(60,725)	(23,486)	(48,156)	(37,193)	(14,488)
Net cash (used in)/ generated from operating activities	(1,030)	(7,169)	(147,632)	26,658	(211,554)	98,456	215,240	87,381
Net cash generated from investing activities	—	14	57,138	1,168	976	2,697	432	708
Net cash (used in)/ generated from financing activities	—	—	—	—	—	(16,000)	(199,900)	(80,100)
Net (decrease)/ increase in cash and cash equivalents	(1,030)	(7,155)	(90,494)	27,826	(210,578)	(58,847)	15,772	7,989
Cash and cash equivalents at beginning of year	1,830	8,985	208,180	180,354	432,126	490,973	69,038	61,049
Cash and cash equivalents at end of year	800	1,830	117,686	208,180	221,548	432,126	84,810	69,038

The information above is before inter-company eliminations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENT PROPERTY

	2017 RMB' 000	2016 RMB' 000
At 1 January	—	—
Transfer from properties under development for sale (Note (a))	75,502	—
Capitalised subsequent expenditure	131	—
Fair value gain	359,036	—
At 31 December	<u>434,669</u>	<u>—</u>

Note:

- (a) During the year ended 31 December 2017, the Group has entered into a rental agreement with a third party for property under development for sale, indicating a change in the intended use of the property under development for sale. As a result, the property under development for sale was reclassified as investment property carried at fair value.

Fair value measurement

As at 31 December 2017, the fair values of the investment properties were measured at level 3 of fair value hierarchy using significant unobservable inputs.

There were no transfers between levels 1, 2 and 3 during the year.

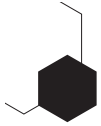
Valuation process of investment property

The Group engages an external, independent and qualified valuer, Jiangxi Hengfang Real Estate and Land Valuation Consultancy Co., Ltd. (“江西恒方房地產土地估價諮詢有限公司”) to determine the fair values of the investment property at the reporting date. As at 31 December 2017, the fair value of the investment property was determined by Jiangxi Hengfang Real Estate and Land Valuation Consultancy Co., Ltd. to be approximately RMB434,669,000.

The Group’s finance department reviews the valuations performed by Jiangxi Hengfang Real Estate and Land Valuation Consultancy Co., Ltd. for financial reporting purpose. These valuation results are then reported to the Group’s management for discussions and review in relation to the valuation processes and the reasonableness of valuation results.

Information about fair value measurements using significant unobservable input (Level 3) is as follows:

Description	Fair value (RMB' 000)	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment property under development- PRC	434,669	Residual method	(1) Market selling prices (2) Developer’s margin	(1) RMB19,678 per sq.m. (2) 35%	The higher the market selling prices and lower the developer’s margin, the higher the fair value



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Associates	561,586	27,983
Joint ventures	472,935	346,449
At 31 December	<u>1,034,521</u>	<u>374,432</u>

The amounts recognised in the consolidated statement of profit or loss are as follows:

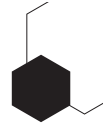
	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Associates	14,546	983
Joint ventures	68,324	5,629
For the year ended 31 December	<u>82,870</u>	<u>6,612</u>

(a) Interest in associates

	2017 RMB' 000	2016 RMB' 000
At beginning of the year	27,983	—
Additions	275,664	—
Recognition of investment in an associate upon disposal of subsidiaries	—	27,000
Share of profit		
– Gain on bargain purchase (Note a)	12,317	983
– Others	2,229	—
At end of the year	<u>318,193</u>	<u>27,983</u>
A loan due from an associate (Note b)	<u>243,393</u>	—
	<u>561,586</u>	<u>27,983</u>

Note:

- (a) The gain on bargain purchase was mainly resulted from the fact that other shareholders intended to cooperate with an experienced property developer who can bring in industry expertise.
- (b) The loan due from Ganzhou Baoherun Co., Limited bears interest of 10% per annum, unsecured and repayable on demand. The carrying value approximates its fair value and is denominated in RMB.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

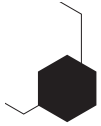
(b) Nature of interest in associates

Name of entity	Principal place of business	% of ownership indirectly held interest		Nature of the relationship	Measurement method
		2017	2016		
Top Glory International Holdings Limited (“Top Glory”)	PRC	45%	45%	Note i	Equity
Jiangxi Chang Da Rui Feng Technology Development Co., Limited (江西昌大瑞豐科技發展有限公司) (“Jiangxi Chang Da Rui Feng”)	PRC	20%	N/A	Note ii	Equity
Jiangxi Life Sunshine City Investment Co., Limited (江西生命陽光城投資股份有限公司) (“Jiangxi Life Sunshine City”)	PRC	25%	N/A	Note iii	Equity
Ganzhou Baoherun Co., Limited (贛州葆和潤實業有限公司) (“Ganzhou Baoherun”)	PRC	20%	N/A	Note iv	Equity
Xianyang Baorong Co., Limited (咸陽保榮實業有限公司) (“Xianyang Baorong”)	PRC	75%	N/A	Note v	Equity

The associates held by the Group have share capital consisting solely of ordinary shares, which are held directly by the Group. All of the associates are private companies with no quoted market price available for its shares.

Note:

- (i) Top Glory is incorporated in the British Virgin Islands. It is an investment holding company and its subsidiaries are mainly engaged in property management service in the PRC. Top Glory is accounted for as an associate following the disposal of 55% interest by the Group on 30 November 2016.
- (ii) Jiangxi Chang Da Rui Feng is a limited liability company incorporated on 8 April 2003. The principal activities are property development and biotechnology development in the PRC. Jiangxi Chang Da Rui Feng is accounted for as an associate following the acquisition of 20% interest at a consideration of RMB24,381,000 by the Group on 30 June 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)****(b) Nature of interest in associates (Continued)**

Note: (Continued)

- (iii) Jingxi Life Sunshine City is a limited liability company incorporated on 11 July 2013. The principal activities are property development and management in the PRC. Jiangxi Life Sunshine City is accounted for as an associate following the acquisition of 25% interest at a consideration of RMB5,000,000 by the Group on 15 July 2017.
- (iv) Ganzhou Baoherun is a limited liability company incorporated on 19 June 2014. The principal activities are property development and management in the PRC. Ganzhou Baoherun is accounted for as an associate following at a consolidation of RMB57,500,000, representing 20% interest, on 30 September 2017.

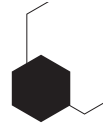
The property project of Ganzhou Baoherun consists of three phases. The Group is entitled to 20% interest of phase 2 and none of the interests of phase 1 and 3.

- (v) Xianyang Baorong is a limited liability company incorporated on 5 September 2011. The principal activities are property development and management in the PRC. Xianyang Baorong is accounted for as an associate following the acquisition of 75% interest at a consideration of RMB188,783,000 by the Group and the Group obtained the significant influence on 31 December 2017.

The property project of Xianyang Baorong consists of two phases. The Group is entitled to 75% interest of phase 2 and none of the interests of phase 1.

Under HKFRS 10, the Company is required to consolidate as subsidiaries in its financial statements, companies which it controls. The Company controls another company if it has (i) power over the other company, (ii) exposure or rights to variable returns from its involvement with the other company and (iii) ability to use its power over the other company to affect the amount of the Company's returns. All three of these requirements must be met. The Company has assessed whether to consolidate Xianyang Baorong as a subsidiary in its financial statements in the light of the provisions of HKFRS 10.

Even though the Company holds 75% of the shareholding and voting right, the directors of the Company is of the view, having considered the terms stated in the operating agreement entered into with the other shareholder and the way in which the board of the Company governs the affairs of Xianyang Baorong in practice, that the Company does not have power over certain operating business of Xianyang Baorong and is not exposed to or able to obtain variable returns from that operating segment for the purposes of HKFRS 10. It follows that the three requirements in HKFRS 10 for consolidation have not been met, the Company should not consolidate Xianyang Baorong as a subsidiary in the Company's financial statements and should account for its interest in Xianyang Baorong as an associated company.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

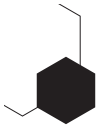
15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Summarised financial information for the associates

Set out below are the summarized financial information for Top Glory and its subsidiaries and Xianyang Baorong which, in the opinion of the directors, are material to the Group and other associates (“Others”). The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group’s share of those amounts. They have been amended to reflect adjustments when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

Summarised balance sheet

	Top Glory and its subsidiaries		Xianyang Baorong (Note (i))		Others	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Cash and cash equivalents	62,391	34,680	1,611	—	107,833	—
Other current assets (excluding cash)	11,326	9,243	265,774	—	1,187,951	—
Total current assets	73,717	43,923	267,385	—	1,295,784	—
Financial current liabilities (excluding trade payables)	—	—	—	—	(30,000)	—
Other current liabilities (including trade payables)	(59,749)	(42,192)	(196,988)	—	(831,024)	—
Total current liabilities	(59,749)	(42,192)	(196,988)	—	(861,024)	—
Non-current assets	1,802	901	49	—	117,094	—
Financial liabilities (excluding trade payables)	—	—	—	—	(243,393)	—
Other liabilities	—	—	(7,457)	—	(75,000)	—
Total non-current liabilities	—	—	—	—	(318,393)	—
Non-controlling interests	(3,866)	(2,710)	—	—	—	—
Net assets/(liabilities)	11,904	(78)	62,989	—	233,461	—



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

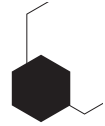
*(c) Summarised financial information for the associates (Continued)**Summarised income statement*

	Top Glory and its subsidiaries		Others	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Revenue	103,262	69,022	6,380	—
Depreciation	(211)	(235)	(4,643)	—
Operating profit/(loss)	14,685	5,796	(40,280)	—
Interest income	—	41	145	—
Interest expenses	—	—	(12,002)	—
Tax expenses	(1,674)	(1,265)	—	—
Profit attributable to non-controlling interests	(1,156)	(869)	—	—
Total comprehensive income/(loss)	11,855	3,703	(52,137)	—

No dividend has been paid or declared by the associates to the Group since the dates of investments.

As mentioned in Note 15(b)(iv) and Note 15(b)(v), the Group does not have control or power over certain phases of Ganzhou Baoherun and Xianyang Baorong. However, the Group has contingent liabilities relating to liabilities of those operating business which they have no control or power over when there is any defaults. As of 31 December 2017, there is no indicator of such defaults and the outflow of resources of the Group is not probable.

Save as above, there are no other contingent liabilities relating to the Group's interest in associates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Summarised financial information for the associates (Continued)

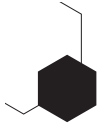
Reconciliation of summarised financial information

Reconciliation of the summarised financial information of the associates presented to the carrying amount of the Group's interest in associates.

	Top Glory and its subsidiaries		Xinyang Baorong (Note (i))		Others		Total	
	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Opening net assets								
1 January	2,185	—	—	—	—	—	2,185	—
Initial recognition of the investment	—	—	122,586	—	341,794	—	464,380	—
Profit/(loss) for the year/period	11,855	2,185	—	—	(15,575)	—	(3,660)	2,185
Closing net assets	14,040	2,185	122,586	—	326,280	—	462,905	2,185
Interest in associates	6,318	983	91,940	—	65,837	—	164,095	983
Recognition of investment in an associate upon disposal of subsidiaries	27,000	27,000	—	—	—	—	27,000	27,000
Implicit goodwill	—	—	96,843	—	30,255	—	127,098	—
A loan due from an associate	—	—	—	—	243,393	—	243,393	—
Carrying value	33,318	27,983	188,783	—	339,485	—	561,586	27,983

Note (i):

As mentioned in Note 15 (b)(v), the Group does not have power over certain operating business of Xinyang Baorong and is not exposed to or able to obtain variable returns from that operating segment. During the year, the income statement mainly reflected financial performance of that operating segment and is irrelevant to the Group. Hence the income statement of Xinyang Baorong has not been disclosed for the year ended 31 December 2017.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(d) Interest in joint ventures

	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
At beginning of the year	338,185	195,980
Capital injection to joint ventures	500	136,576
Disposal of a joint venture (Note a)	(5,123)	—
Share of profit	68,324	5,629
Net asset attributable to the Group's interest	401,886	338,185
Unrealised gain from the transaction with a joint venture	(23,040)	(23,340)
At end of the year	378,846	314,845
Loans due from joint ventures (Note b)	94,089	31,604
	472,935	346,449

Note:

- (a) On 14 December 2017, Redco (China) Real Estate Co., Ltd. agreed to sell 36% of the equity interest of its joint venture, Jiangxi Manwei Property Development Co., Limited ("Jiangxi Manwei"), at a cash consideration of RMB16,875,000 to its joint venture partner of Jiangxi Manwei and the transaction was completed on the same day. Upon the completion, Jiangxi Manwei was derecognised as a joint venture of the Group and the gain on disposal was included in "other (losses)/gains, net" in the consolidated statement of profit or loss (Note 7).
- (b) The loans due from joint ventures, Hui Gao Investments Development Limited and Power Out International Holding Limited (FY2016: Redco Industry (Jiangxi) Co., Limited), are interest-free, unsecured and have no fixed repayment terms. The carrying amounts approximate their fair values.

(e) Nature of interest in joint ventures

Name of entity	Principal place of business	% of ownership indirectly held interest		Nature of the relationship	Measurement Method
		2017	2016		
Redco Industry (Jiangxi) Co., Limited ("Redco Industry")	PRC	50%	50%	Note 1	Equity
Nanchang Guogao Property Development Co., Limited (南昌國高房地產置業有限公司) ("Nanchang Guogao")	PRC	51%	51%	Note 2	Equity



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(e) Nature of interest in joint ventures (Continued)

Name of entity	Principal place of business	% of ownership indirectly held interest		Nature of the relationship	Measurement Method
		2017	2016		
Jiangxi Po Hu Feng Qing Property Development Co., Limited (江西鄱湖風情置業有限公司)	PRC	60%	60%	Note 3	Equity
Power Out International Holding Limited	PRC	68%	68%	Note 4	Equity
Hui Gao Investments Development Limited (“Hui Gao”)	PRC	51%	51%	Note 5	Equity
Shenzhen Redco Hongye Property Development Co., Limited (深圳力高宏業地產開發有限公司) (“Shenzhen Redco Hongye”)	PRC	50%	N/A	Note 6	Equity

The Group has joint control over the above entities under contractual agreements, and unanimous consent is required from all parties for all relevant activities of the entities.

The joint ventures held by the Group have share capital consisting solely of ordinary shares, which are held directly by the Group. All of the joint ventures are private companies with no quoted market price available for its shares.

Note 1: Redco Industry (Jiangxi) Co., Limited was a wholly owned foreign enterprise incorporated on 28 July 2010. The principal activity is hotel operations in the PRC.

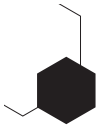
Note 2: Nanchang Guogao Property Development Co., Ltd was a limited liability company incorporated in the PRC on 21 January 2016. The principal activity is property development in the PRC.

Note 3: Jiangxi Po Hu Feng Qing Property Development Co., Limited was a limited liability company incorporated in the PRC on 8 July 2014. The principal activity is property development in the PRC.

Note 4: Power Out International Holding Limited was incorporated in the British Virgin islands on 8 July 2016. This is an investment holding company and its subsidiaries mainly engaged in property development projects.

Note 5: Hui Gao Investments Development Limited (“Hui Gao”) was incorporated in the British Virgin islands on 15 June 2012. This is an investment holding company and its subsidiary is mainly engaged in property development projects.

Note 6: Shenzhen Redco Hongye was a limited liability company incorporated in the PRC on 29 August 2014. On 1 September 2017, additional shares of Shenzhen Redco Hongye which represent 50% of its equity interest were issued to Shenzhen Qishun Kaisa Development Co., Limited and both parties have equal voting rights in the board of directors. As a result, Shenzhen Redco Hongye become a joint venture of the Group (2016: indirectly wholly-owned subsidiary). Shenzhen Redco Hongye is mainly engaged in property development projects.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

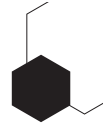
15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(f) Summarised financial information for the joint ventures

Set out below are the summarized financial information for Redco Industry and Nanchang Guogao which, in the opinion of the directors, are material to the Group and other immaterial joint ventures (“Others”). The information disclosed reflects the amounts presented in the financial statements of the joint ventures and not the Group’s share of those amounts. They have been amended to reflect adjustments when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

Summarised balance sheet

	Redco Industry		Nanchang Guogao		Others	
	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Cash and cash equivalents	32,123	21,654	156,474	165,111	5,733	15,837
Other current assets (excluding cash)	27,781	36,558	678,140	798,907	211,774	466,850
Total current assets	59,904	58,212	834,614	964,018	217,507	482,687
Financial current liabilities (excluding trade payables)	—	(7,000)	—	—	—	—
Other current liabilities (including trade payables)	(64,328)	(71,863)	(515,688)	(364,452)	(339,125)	(303,277)
Total current liabilities	(64,328)	(78,863)	(515,688)	(364,452)	(339,125)	(303,277)
Non-current assets	506,436	469,586	14,433	532	455,879	38,231
Financial liabilities (excluding trade payables)	—	—	—	(380,000)	(356,227)	(180,000)
Other liabilities	(41,296)	(29,621)	—	—	—	—
Total non-current liabilities	(41,296)	(29,621)	—	(380,000)	(356,227)	(180,000)
Non-controlling interests	—	—	—	—	(3)	—
Net assets	460,716	419,314	333,359	220,098	(21,969)	37,641



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

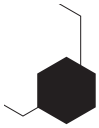
(f) Summarised financial information for the joint ventures (Continued)

Summarised income statement

	Redco Industry		Nanchang Guogao		Others	
	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000
Revenue	92,041	94,515	535,400	—	—	—
Depreciation	(13,748)	(14,089)	(141)	(37)	(42)	(10)
Operating profit/(loss)	6,365	(1,370)	160,736	(10,206)	(11,361)	(3,590)
Fair value gain on an investment property	46,696	39,061	—	—	—	—
Interest income	46	25	423	304	59	15
Interest expenses	(31)	(598)	—	—	(12,356)	(6,318)
Tax (expenses)/credit	(11,674)	(9,765)	(47,898)	—	386	—
Total comprehensive income/(loss)	41,402	27,353	113,261	(9,902)	(23,290)	(9,893)
Unrecognised share of losses	—	—	—	—	13,512	470
Cumulative unrecognised share of losses	—	—	—	—	13,983	470

No dividend has been paid or declared by the joint ventures to the Group since the dates of investments.

A corporate guarantee provided by the Group to the subsidiary of Power Out International Holding Limited for a loan facility. Please see Note 31(c) for details.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

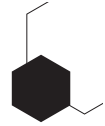
15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(f) Summarised financial information for the joint ventures (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information of the joint ventures presented to the carrying amount of the Group's interest in joint ventures.

	Redco Industry		Nanchang Guogao		Others		Total	
	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Opening net assets								
1 January	419,314	391,961	220,098	—	37,641	—	677,053	391,961
Initial recognition of the investment	—	—	—	230,000	1,000	47,534	1,000	277,534
Disposal of a joint venture	—	—	—	—	(12,720)	—	(12,720)	—
Profit/(loss) for the year	41,402	27,353	113,261	(9,902)	(47,383)	(9,893)	167,262	7,558
Closing net assets/ (liabilities)	460,716	419,314	333,359	220,098	(21,463)	37,641	772,595	677,053
Interest in joint ventures	230,357	209,657	170,013	112,249	213	14,283	400,583	336,189
Unrealised profit from the transaction with a joint venture	(23,040)	(23,340)	—	—	—	—	(23,040)	(23,040)
Implicit goodwill	—	—	1,303	1,303	—	693	1,303	1,996
Loans due from joint ventures	—	31,604	—	—	94,089	—	94,089	31,604
Carrying value	207,317	217,921	171,316	113,552	94,302	14,976	472,935	346,449



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

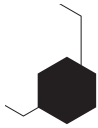
16 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The analysis of deferred tax (liabilities)/assets, net, is as follows:

	2017 RMB' 000	2016 RMB' 000
Deferred income tax assets		
– to be recovered within 12 months	207,350	176,590
– to be recovered after more than 12 months	31,581	42,543
	<u>238,931</u>	<u>219,133</u>
Deferred income tax liabilities		
– to be settled within 12 months	(35,683)	(62,323)
– to be settled after more than 12 months	(229,921)	(80,287)
	<u>(265,604)</u>	<u>(142,610)</u>
Deferred tax (liabilities)/assets, net	<u>(26,673)</u>	<u>76,523</u>

The movements on the net deferred income tax assets/(liabilities) are as follows:

	2017 RMB' 000	2016 RMB' 000
At 1 January	76,523	(125,498)
(Charged)/credited to the consolidated statement of profit or loss (Note 10)	(36,100)	202,021
Acquisition of subsidiaries (Note 28)	(64,718)	—
Assets classified as held for sale (Note 21)	(2,194)	—
Disposal of a subsidiary	(184)	—
At 31 December	<u>(26,673)</u>	<u>76,523</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX (CONTINUED)

Deferred tax assets:

	Unrealised profit RMB' 000	Tax losses RMB' 000	Provisions RMB' 000	Total RMB' 000
At 1 January 2016	6,195	40,083	12,167	58,445
(Charged)/credited to consolidated statement of profit of loss	(360)	5,434	155,614	160,688
At 31 December 2016	<u>5,835</u>	<u>45,517</u>	<u>167,781</u>	<u>219,133</u>
At 1 January 2017	5,835	45,517	167,781	219,133
(Charged)/credited to consolidated statement of profit of loss	(75)	10,524	11,727	22,176
Disposal of a subsidiary	—	(184)	—	(184)
Assets classified as held for sale	—	(2,194)	—	(2,194)
At 31 December 2017	<u>5,760</u>	<u>53,663</u>	<u>179,508</u>	<u>238,931</u>

Deferred tax liabilities:

	Fair value adjustment on acquisition of subsidiaries RMB' 000	Fair value gain on an investment property RMB' 000	Interest capitalised RMB' 000	Withholding tax RMB' 000	Total RMB' 000
At 1 January 2016	22,272	—	47,065	114,606	183,943
(Credited)/charged to consolidated statement of profit of loss	(4,371)	—	6,583	(43,545)	(41,333)
At 31 December 2016	<u>17,901</u>	<u>—</u>	<u>53,648</u>	<u>71,061</u>	<u>142,610</u>
At 1 January 2017	17,901	—	53,648	71,061	142,610
(Credited)/charged to consolidated statement of profit of loss	(10,910)	89,759	(39,956)	19,383	58,276
Acquisition of subsidiaries	64,718	—	—	—	64,718
At 31 December 2017	<u>71,709</u>	<u>89,759</u>	<u>13,692</u>	<u>90,444</u>	<u>265,604</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX (CONTINUED)

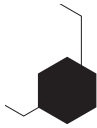
Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. As at 31 December 2017 and 2016, the unrecognised tax losses are as follows:

	2017 RMB' 000	2016 RMB' 000
Expiry date in:		
2017	—	3,079
2018	3,206	3,575
2019	38,730	42,943
2020	24,100	24,931
2021	27,530	27,530
2022	35,789	—
No expiry date	15,369	15,369
	<u>144,724</u>	<u>117,427</u>

During the year, tax losses amounting to RMB3,313,000 (2016: RMB1,583,000) expired.

Pursuant to the relevant PRC corporate income tax rules and regulations, deferred tax on withholding tax is imposed on declared dividends in respect of profits earned by the Group's PRC subsidiaries from 1 January 2008.

Deferred income tax liabilities of approximately RMB45,087,000 (2016: RMB45,087,000) as at 31 December 2017 have not been provided for in the consolidated balance sheet in respect of temporary differences attributable to accumulated profits of Group's certain PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not be reversed in the foreseeable future.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 COMPLETED PROPERTIES HELD FOR SALE

	2017 RMB' 000	2016 RMB' 000
Amount comprised:		
Land use rights	671,492	864,220
Construction costs and capitalised expenditures	761,718	1,000,048
Interest capitalised	130,882	108,213
	<u>1,564,092</u>	<u>1,972,481</u>

Completed properties held for sale are all located in the PRC.

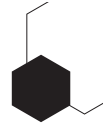
18 PROPERTIES UNDER DEVELOPMENT FOR SALE

	2017 RMB' 000	2016 RMB' 000
Within normal operating cycle included under current assets		
Amount comprised:		
Land use rights	3,653,337	3,187,033
Construction costs and capitalised expenditures	1,790,369	2,106,718
Interest capitalised	284,748	424,173
	<u>5,728,454</u>	<u>5,717,924</u>

The normal operating cycle of the Group's property development generally ranges from one to two years.

The properties under development for sale are all located in the PRC.

	2017 RMB' 000	2016 RMB' 000
Properties under development for sale:		
Expected to be completed and available for sale after more than 12 months	2,873,776	1,422,374
Expected to be completed and available for sale within 12 months	2,854,678	4,295,550
	<u>5,728,454</u>	<u>5,717,924</u>
Pledged as collateral for the Group's borrowings	<u>2,963,928</u>	<u>3,062,560</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

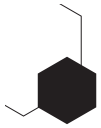
	2017 RMB' 000	2016 RMB' 000
Trade receivables (Note a)	147,910	79,089
Accrued contract revenue (Note b)	700,000	417,500
	<u>847,910</u>	<u>496,589</u>
Other receivables	1,117,961	559,926
Deposits with local real estate associations (Note c)	1,109,331	494,728
Deposits with labour department	2,645	5,446
Deposits with treasury bureau	4,747	4,747
	<u>2,234,684</u>	<u>1,064,847</u>
Prepaid business tax and surcharges	26,623	103,178
Prepayment of purchase of property, plant and equipment	475,236	—
Prepayment for construction costs	4,888	55,080
Prepayment for land use rights	678,602	369,746
Prepayment for acquisition of subsidiaries	254,000	61,200
	<u>3,674,033</u>	<u>1,654,051</u>
Less: Non-current portion prepayment for purchase of property, plant and equipment	<u>(475,236)</u>	<u>—</u>
	<u>3,198,797</u>	<u>1,654,051</u>
	<u>4,046,707</u>	<u>2,150,640</u>

Note:

- (a) Trade receivables mainly arise from sales of properties. Proceeds in respect of sales of properties are to be received in accordance with the terms of the related sales and purchase agreements. Credit terms are generally granted to certain customers and the customers are required to settle the receivables according to the sales and purchase agreements. The ageing analysis of trade receivables at the balance sheet dates based on revenue recognition date was as follows:

	2017 RMB' 000	2016 RMB' 000
0 - 30 days	95,312	47,595
31 - 60 days	9,130	—
61 - 90 days	16,660	—
91 - 180 days	7,888	—
Over 180 days	18,920	31,494
	<u>147,910</u>	<u>79,089</u>

As at 31 December 2017, trade receivables of RMB140,590,000 (2016: RMB40,741,000) were overdue but not impaired. These receivables relate to certain customers that are financially viable. Based on past experience, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully receivable.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****19 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)**

Note: (Continued)

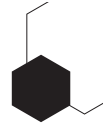
(a) The ageing analysis of these trade receivables was as follows:

	2017 RMB' 000	2016 RMB' 000
0 - 30 days	88,712	31,061
31 - 60 days	9,130	—
61 - 90 days	16,660	—
91 - 180 days	7,888	—
Over 180 days	18,200	9,680
	140,590	40,741

- (b) Accrued contract revenue arises from the Group's sea reclamation service to the PRC government. The sea reclamation service provided to the customer was completed and the corresponding receivable balance is not yet billed due to administrative procedures as at 31 December 2017.
- (c) The deposits with local real estate associations mainly included deposits made to PRC government bodies for future land development and site clearing for the listing-for-sale or in connection with the retention of the quality for properties construction as required by the relevant regulations in respect of the Group's property development projects.
- (d) RMB45,000,000 was paid to an independent third party (the "Seller") in December 2016 as a deposit for the purchase of property, plant and equipment and no formal sales and purchase agreement was entered into with the Seller as at 31 December 2016. The deposit was refundable before entering into the sales and purchase agreement. Hence, it was classified in other receivables as at 31 December 2016.
- (e) Trade receivables are secured by the properties sold. The carrying amounts of trade receivables approximate their fair values and are interest-free and repayable on demand.
- (f) The carrying amounts of other receivables and deposits approximate their fair values and are unsecured, interest-free and repayable on demand.
- (g) The carrying amounts of the Group's trade receivables and other receivables are all denominated in RMB.

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2017 RMB' 000	2016 RMB' 000
Cash at bank and on hand	3,587,770	2,417,219
Less: assets classified as held for sales (Note 21)	(708)	—
Cash and cash equivalents	3,587,062	2,417,219
Restricted cash	1,318,450	1,186,255
Cash and cash equivalents and restricted cash	4,905,512	3,603,474



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (CONTINUED)

The carrying amounts of the Group’s cash and cash equivalents and restricted cash are equivalent to their fair values and are denominated in the following currencies:

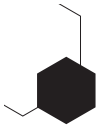
	2017 RMB’ 000	2016 RMB’ 000
RMB	4,121,026	3,329,619
US\$	751,421	168,976
HK\$	33,065	104,879
	<u>4,905,512</u>	<u>3,603,474</u>

The cash and cash equivalents and restricted cash denominated in RMB are deposited with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Restricted cash comprises (i) guaranteed deposits for the mortgage loan facilities granted by banks to purchasers of the Group’s properties, (ii) guaranteed deposits for constructions of properties from certain property development companies of the Group that are required to place certain amount of presale proceeds of properties in designated bank accounts in accordance with relevant regulations issued by local State-Owned Land and Resource Bureau, and (iii) other bank deposits that are restricted in use as collateral for banking facilities of the Group.

21 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 19 December 2017, Tianjin Redco Shengye Company Limited (天津力高盛業有限公司), an indirectly subsidiary of the Group incorporated in the PRC, entered into an agreement (the “Agreement”) with Shanghai Zhong Da Industry Development Company Limited (上海重達實業發展有限公司) (the “Purchaser”), a company incorporated in the PRC which is principally engaged in investment holding and independent of the Group, in relation to the disposal of all its equity interest in Shanghai Mingchang Real Estate Company Limited (上海明昌置業有限公司) (the “Disposal Company”). As of the date of the Agreement, the Disposal Company was principally engaged in property development. The consideration for the disposal is approximately RMB671,798,000 (subject to adjustment). Approximately RMB67,179,800, representing 10% of the consideration, has been paid by the Purchaser (Note 25). Completion is conditional upon the satisfaction of certain conditions precedents stipulated in the Agreement. As a result of the Agreement, the Disposal Company is no longer treated as a subsidiary of the Group and its financial results are not consolidated with the results of the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (CONTINUED)

The following assets and liabilities were reclassified as held for sale in relation to the Disposal Company as at 31 December 2017:

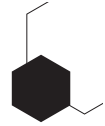
	RMB' 000
Assets classified as held for sale	
Property, plant and equipment (Note 11)	466
Deferred income tax assets (Note 16)	2,194
Properties under development for sale	462,536
Trade and other receivables, deposits and prepayments	2,027
Cash and cash equivalents	708
Total assets of the Disposal Company held for sale	<u>467,931</u>
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	<u>(1,544)</u>
Total liabilities of the Disposal Company held for sale	<u>(1,544)</u>

22 SHARE CAPITAL

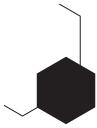
	Number of Share	Par value per share	Share Capital	
			HK\$' 000	RMB' 000
Authorised:				
As at 1 January 2015, 31 December 2015 and 1 January 2016	5,000,000,000	HK\$0.10	500,000	418,899
Effect of share subdivision (Note a)	<u>5,000,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
As at 31 December 2016, 1 January 2017 and 31 December 2017	<u>10,000,000,000</u>	<u>HK\$0.05</u>	<u>500,000</u>	<u>418,899</u>
As at 31 December 2017				
Issued and fully paid:				
As at 1 January 2016	1,775,804,661	HK\$0.10	177,580	139,632
Effect of share sub-division (Note a)	<u>1,775,804,661</u>	<u>—</u>	<u>—</u>	<u>—</u>
As at 31 December 2016, 1 January 2017 and 31 December 2017	<u>3,551,609,322</u>	<u>HK\$0.05</u>	<u>177,580</u>	<u>139,632</u>

Note:

- (a) Pursuant to the resolution passed at the extraordinary general meeting of the Company on 27 October 2016, the then issued and unissued shares of the Company of HK\$0.10 each was sub-divided into two shares of HK\$0.05 each on 28 October 2016.


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
23 RESERVES

	Share premium RMB' 000	Exchange reserve RMB' 000	Statutory reserve RMB' 000	Merger reserve RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	Total RMB' 000
At 1 January 2016, as previously reported	1,241,423	(95,249)	191,609	134,402	(416)	911,537	2,383,306
Effect of changes in accounting policy (Note 2.1.2)	—	—	—	—	—	31,572	31,572
At 1 January 2016 (Restated)	1,241,423	(95,249)	191,609	134,402	(416)	943,109	2,414,878
Comprehensive income Profit for the year, as previously reported	—	—	—	—	—	434,319	434,319
Effect of changes in accounting policy (Note 2.1.2)	—	—	—	—	—	16,437	16,437
	—	—	—	—	—	450,756	450,756
Other comprehensive loss							
Currency translation differences	—	(145,579)	—	—	—	—	(145,579)
Transfer to statutory reserve	—	—	63,230	—	—	(63,230)	—
Total comprehensive (loss)/income	—	(145,579)	63,230	—	—	387,526	305,177
Transactions with owner:							
Change in ownership interests in subsidiary without change in control (Note 28)	—	—	—	—	(9,810)	—	(9,810)
Total transactions with owners, recognised in equity	—	—	—	—	(9,810)	—	(9,810)
At 31 December 2016 (Restated)	1,241,423	(240,828)	254,839	134,402	(10,226)	1,330,635	2,710,245
Comprehensive income							
Profit for the year	—	—	—	—	—	862,237	862,237
Other comprehensive income							
Currency translations differences	—	170,639	—	—	—	—	170,639
Transfer to statutory reserve	—	—	65,042	—	—	(65,042)	—
Total comprehensive income	—	170,639	65,042	—	—	797,195	1,032,876
Transactions with owner:							
Dividends relating to 2017 interim (Note 36)	—	—	—	—	—	(71,032)	(71,032)
Total transactions with owners, recognised in equity	—	—	—	—	—	(71,032)	(71,032)
At 31 December 2017	1,241,423	(70,189)	319,881	134,402	(10,226)	2,056,798	3,672,089



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 BORROWINGS

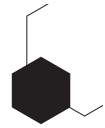
	2017 RMB' 000	2016 RMB' 000
Long-term bank borrowings, secured	3,982,100	2,464,328
Senior Notes due 2019, secured	—	855,204
Non-current borrowings, secured	<u>3,982,100</u>	<u>3,319,532</u>
Short-term bank borrowings, secured	472,300	—
Senior Notes due 2018, secured	<u>1,622,697</u>	—
	2,094,997	—
Portion of term loan from bank, secured		
– due for repayment within one year, secured	1,002,286	90,100
– due for repayment within one year which contain a repayment on demand clause, secured	24,500	46,863
– due for repayment after one year which contain a repayment on demand clause, secured	<u>139,336</u>	<u>172,737</u>
Current bank borrowings, secured	<u>3,261,119</u>	<u>309,700</u>
Total borrowings	<u><u>7,243,219</u></u>	<u><u>3,629,232</u></u>

The Group's borrowings as at 31 December 2017 of RMB2,425,680,000 (2016: RMB1,670,720,000), were secured by certain properties under development for sale of the Group (Note 17) with the carrying values of RMB 2,963,928,000 (2016: RMB3,062,560,000). The Group's borrowings as at 31 December 2017 of RMB 4,817,539,000 (2016: RMB1,958,512,000) were guaranteed by the Company and secured by the Group's equity interests in certain subsidiaries.

Bank borrowings bear interest from 2.90% to 9.50% (2016: 3.22% to 9.72%) per annum.

The amounts based on the scheduled repayment dates set out in the loan agreements and the maturities of the Group's total borrowings at the respective balance sheet dates (i.e. ignoring the effect of any repayment on demand clause) are shown below:

	2017 RMB' 000	2016 RMB' 000
Amounts of borrowings that are repayable:		
– Within 1 year	3,121,783	136,963
– Between 1 and 2 years	2,113,509	845,143
– Between 2 and 5 years	<u>2,007,917</u>	<u>2,647,126</u>
Total borrowings	<u><u>7,243,219</u></u>	<u><u>3,629,232</u></u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 BORROWINGS (CONTINUED)

The carrying amounts of the Group's bank borrowings approximate their fair values for the reason that the impact of discounting is not significant or the borrowings carrying floating rate of interests and are denominated in the following currencies:

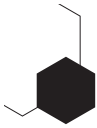
	2017 RMB' 000	2016 RMB' 000
US\$	3,879,876	1,738,912
RMB	3,199,507	1,670,720
HK\$	163,836	219,600
	<u>7,243,219</u>	<u>3,629,232</u>

On 9 August 2017, the Company redeemed an aggregate principal amount of US\$125,000,000 of all outstanding senior notes due 2019 (the "Senior Notes due 2019") at the redemption price equal to 106.875% of the principal amount thereof, being US\$133,593,750 plus accrued and unpaid interest of US\$381,944 up to 9 August 2017. The total redemption price paid by the Company was US\$133,975,694. The withdrawal of listing of the Senior Notes due 2019 on the Stock Exchange became effective upon the close of business on 21 August 2017. The loss on early redemption of Senior Notes due 2019 of approximately RMB58,031,000 was included in "finance income and costs" in the consolidated statement profit or loss.

On 15 November 2017, the Company issued 7% senior notes due 2018 with an aggregate nominal value of US\$125,000,000 at par value (the "Senior Notes due 2018"). The interest is payable semi-annually in arrears. The Senior Notes due 2018 will mature on 14 November 2018, unless redeemed earlier. The Company, at its option, can redeem the Senior Notes due 2018 (i) in whole or in part, at a redemption price equal to 101% of principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date; (ii) redeem up to 35% of the aggregate principal amount of the Senior Notes due 2018, at a redemption price of 107% of the principal amount of the Senior Notes due 2018, plus accrued and unpaid interest, if any, to (but not including) the redemption date, in each case, using the net cash proceeds from sales of certain kinds of capital stock at any time and from time to time prior to 14 November 2018 and (iii) redeem the Notes at any time, in whole but not in part, at a price equal to 100% of the principal amount of such Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date and a premium prior to 14 November 2018.

The Senior Notes due 2018 are secured by the shares of certain subsidiaries of the Company which are incorporated outside the PRC. The Senior Notes due 2018 are listed on the Singapore Exchange Securities Trading Limited.

The early redemption option of Senior Notes due 2018 is regarded as embedded derivatives not closely related to the host contract. The directors consider that the fair value of the above early redemption option was insignificant on recognition and at 31 December 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****25 TRADE AND OTHER PAYABLES**

	2017 RMB' 000	2016 RMB' 000
Trade payables (Note a)	1,401,828	1,383,728
Accruals and other payables	313,637	291,622
Land use right payable	—	335,024
Deposit received for the sale of the Disposal Company (Note 21)	67,180	—
Divided payables	6,907	—
Other taxes payables	364,314	213,147
Salary payables	2,246	1,017
	<u>2,156,112</u>	<u>2,224,538</u>

Note:

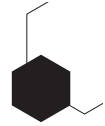
- (a) The ageing analysis of the trade payables based on invoice date was as follows:

	2017 RMB' 000	2016 RMB' 000
0 - 30 days	1,348,561	1,288,657
31 - 60 days	418	9,434
61 - 90 days	13,859	2,243
Over 90 days	38,990	83,394
	<u>1,401,828</u>	<u>1,383,728</u>

- (b) The carrying amounts of the Group's trade payables approximate their fair values due to their short maturities and are denominated in RMB.

26 RECEIPTS IN ADVANCE

The Group starts sales of properties and collection of proceeds from customers before the properties are completed and ready for delivery. Such proceeds from customers are recorded as advanced proceeds received from customers before the relevant sales are recognised.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

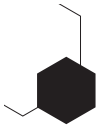
27 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to net cash generated from operations:

	2017 RMB' 000	2016 RMB' 000 (Restated) (Note 2.1.2)
Profit for the year	990,132	554,765
– Income tax expense	607,735	405,983
– Depreciation on property, plant and equipment	6,597	7,623
– Finance income	(44,729)	(15,302)
– Finance costs	70,945	6,364
– Gain on disposal of subsidiaries	(1,566)	(123,036)
– Gain on disposal of investment in a joint venture	(11,752)	–
– Gains on bargain purchase arising from acquisition of subsidiaries	(1,150)	–
– Gain on disposal of property, plant and equipment	(226)	(184)
– Fair value gain on an investment property	(359,036)	–
– Share of profit of investment accounted for using the equity method, net	(82,870)	(6,612)
– Impairment of goodwill	49,535	–
– Realisation of unrealised gain from the transaction with a joint venture	(300)	(1,440)
– Unrealised exchange differences	24,089	(28,298)
Operating profit before working capital change	1,247,407	799,863
– Completed properties held for sale	408,389	(735,435)
– Properties under development for sale	1,423,390	2,389,902
– Trade and other receivables and prepayments	(1,752,614)	(771,273)
– Receipts in advance	271,620	1,286,607
– Trade and other payables	(1,134,710)	(414,346)
– Restricted cash	(132,195)	(517,496)
Net cash generated from operations	<u>331,287</u>	<u>2,037,822</u>

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	2017 RMB' 000	2016 RMB' 000
Net book amount (Note 11)	718	171
Net gain on disposals of property, plant and equipment (Note 7)	226	184
Proceeds from disposals of property, plant and equipment	<u>944</u>	<u>355</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****27 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS**

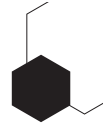
(c) Reconciliation of liabilities from financing activities

The below table sets out an analysis of net debt and the movements in net debt for each year presented.

	Liabilities from financing activities				
	Borrowings due within 1 year RMB' 000	Borrowing due after 1 year RMB' 000	Amounts to non- controlling interests RMB' 000	Amounts to joint ventures RMB' 000	Total RMB' 000
Net debt as at 31 December 2016	309,700	3,319,532	451,308	65,663	4,146,203
Repayment of advances from non-controlling interests	—	—	(334,894)	—	(334,894)
Advances from joint ventures	—	—	—	74,546	74,546
Proceeds from bank borrowings	1,668,155	3,328,846	—	—	4,997,001
Repayment of bank borrowings	(921,096)	(1,190,004)	—	—	(2,111,100)
Issuance of Senior Notes due 2018	1,673,784	—	—	—	1,673,784
Redemption of Senior Notes due 2019	—	(899,974)	—	—	(899,974)
Other non-cash movements	596,111	(460,294)	—	—	135,817
Foreign exchange adjustments	(65,535)	(116,006)	—	—	(181,541)
Net debt as at 31 December 2017	<u>3,261,119</u>	<u>3,982,100</u>	<u>116,414</u>	<u>140,209</u>	<u>7,499,842</u>

28 ACQUISITION OF SUBSIDIARIES**28.1 Business combination**(a) *Acquisition of Zhongshan Jintian Real Estate Development Co., Ltd.*

On 1 July 2017, the Group completed the acquisition of 70% equity interest of Zhongshan Jintian Real Estate Development Co., Ltd. (中山市金田房地產實業發展有限公司) (“Zhongshan Jintian”) at a consideration of RMB60,341,000. Zhongshan Jintian is principally engaged in property development in Guangdong Province and has a property project developing in Huang Pu Town, Zhongshan.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 ACQUISITION OF SUBSIDIARIES (CONTINUED)

28.1 Business combination (Continued)

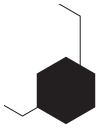
(b) Acquisition of Jinan Dongfeng Real Estate Co., Ltd.

On 19 July 2017, the Group completed the acquisition of 100% effective interest of Jinan Dongfeng Real Estate Co., Ltd. (濟南東風置業有限公司) (“Jinan Dongfeng”) at a consideration of RMB123,862,000. Jinan Dongfeng is principally engaged in property development in Shandong Province and has a property project developing in Zhang Qiu District, Jinan.

The following table summarises the consideration paid for the acquisitions of Zhongshan Jintian and Jinan Dongfeng, the fair value of assets acquired and liabilities assumed at the acquisition date. The non-controlling interests are measured at fair value as at the acquisition date.

	Zhongshan Jintian RMB' 000	Jinan Dongfeng RMB' 000
Consideration paid and payable as at acquisition date	60,341	123,862
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	417	—
Properties under development	146,855	236,122
Prepayments, deposits and other receivable	33,257	14,481
Cash and cash equivalents	—	266
Borrowings	(5,000)	—
Other payables	(60,456)	(89,833)
Deferred income tax liabilities	(28,278)	(36,440)
Total identifiable net assets acquired	86,795	124,596
Less: Non-controlling interest initially recognised	(26,038)	—
Less: Gains on bargain purchase (Note 7)	(416)	(734)
Net assets acquired	<u>60,341</u>	<u>123,862</u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:		
Cash consideration paid	60,341	123,862
Less: Prepayment for acquisition paid in prior year	—	—
Less: Cash and cash equivalents acquired	—	(266)
Net cash outflow in the year of 2017	<u>60,341</u>	<u>123,596</u>

Gains on bargain purchase were mainly due to the fact that the sellers had the intention to exit from their investments in these acquired businesses due to various operational reasons to cooperate with an experienced property developer who can bring in industry expertise.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 ACQUISITION OF SUBSIDIARIES (CONTINUED)

28.1 Business combination (Continued)

(b) *Acquisition of Jinan Dongfeng Real Estate Co., Ltd. (continued)*

The acquired businesses contributed net losses of RMB5,148,000 to the Group for the period from the respective acquisition dates to 31 December 2017. If the acquisitions had occurred on 1 January 2017, consolidated revenue and net loss for the year ended 31 December 2017 would have been nil and RMB8,375,000 respectively.

28.2 Assets acquisition

(a) *Acquisition of Nanchang Xinrong Real Estate Development Co., Ltd.*

On 3 March 2017, the Group completed the acquisition of 30% equity interest of Nanchang Xinrong Real Estate Development Co., Ltd. (南昌欣榮房地產開發有限公司) (“Nanchang Xinrong”) at a consideration of RMB3,000,000. Nanchang Xinrong is principally engaged in property development in Jiangxi Province and holds a parcel of land in Yin San Jiao Xiang Tang Development District, Nanchang. As the 70% shareholder of Nanchang Xinrong Property Development Co., Ltd. (“Nanchang Xinrong”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Nanchang Xinrong and appoints 2 out of 3 directors of the board of Nanchang Xinrong. The decisions are made by simple majority. It follows that the Group should consolidate Nanchang Xinrong as a subsidiary in the Group’s financial statements.

(b) *Acquisition of Jiangxi Nayu Property Co., Ltd*

On 5 May 2017, the Group completed the acquisition of 51% equity interest of Jiangxi Nayu Property Co., Ltd. (江西納裕實業有限公司) (“Jiangxi Nayu”) at a consideration of RMB61,200,000. Jiangxi Nayu is principally engaged in property development in Jiangxi Province and holds a parcel of land in Chang Nan New District, Nanchang.

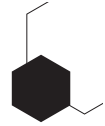
(c) *Acquisition of Hefei Zhiyue Real Estate Co., Ltd. and Hefei Panrui Real Estate Co., Ltd.*

On 21 July 2017, the Group completed the acquisition of 100% equity interest of both Hefei Panrui Real Estate Co., Ltd. (合肥磐瑞置業有限公司) (“Hefei Panrui”) and Hefei Zhiyue Real Estate Co., Ltd. (合肥智越置業有限公司) (“Hefei Zhiyue”) at a consideration of RMB330,861,000. Hefei Panrui and Hefei Zhiyue are principally engaged in property development in Anhui Province and hold a parcel of land in Hefei East Economic Development District, Hefei.

(d) *Acquisition of Quanzhou Lixing Real Estate Development Co., Ltd.*

On 5 December 2017, the Group completed the acquisition of 33% equity interest of Quanzhou Lixing Real Estate Development Co., Ltd. (泉州麗興房地產開發有限公司) (“Quanzhou Lixing”) at a consideration of RMB10,000,000. Quanzhou Lixing is principally engaged in property development in Fujian Province and holds a parcel of land in Taiwan Business District Investment Zone, Quanzhou. As the 18% shareholder of Quanzhou Lixing Real Estate Development Co., Ltd. (“Quanzhou Lixing”) has granted its voting rights to the Group, the Group owns more than half of the voting rights in Quanzhou Lixing and appoints 2 out of 3 directors of the board of Quanzhou Lixing. The decisions are made by simple majority. It follows that the Group should consolidate Quanzhou Lixing as a subsidiary in the Group’s financial statements.

As Nanchang Xinrong, Jiangxi Nayu, Hefei Panrui, Hefei Zhiyue and Quanzhou Lixing did not operate any business prior to the date of acquisition, the Group considers the nature of the acquisition as acquisition of assets in substance and the consideration should be attributable to the individual assets acquired and liabilities assumed.



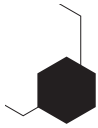
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 ACQUISITION OF SUBSIDIARIES (CONTINUED)

28.2 Assets acquisition (Continued)

The following table summarises the consideration paid for the acquisitions, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Nanchang Xinrong RMB' 000	Jiangxi Nayu RMB' 000	Hefei Panrui RMB' 000	Hefei Zhiyue RMB' 000	Quanzhou Lixing RMB' 000
Consideration paid and payable as at acquisition date	3,000	61,200	178,089	152,772	10,000
Recognised amounts of identifiable assets acquired and liabilities assumed:					
Property, plant and equipment	19	368	—	—	150
Prepayments, deposits and other receivable	107,308	78,918	1,276	1,071	28,236
Properties under development	30,848	124,434	570,912	489,936	15,825
Cash and cash equivalents	5	10,847	7	206	5
Borrowings	—	(55,000)	—	—	—
Other payables	(128,835)	(46,549)	(394,106)	(338,441)	(16,951)
Total identifiable net assets acquired	9,345	113,018	178,089	152,772	27,265
Less: Non-controlling interest initially recognised	(6,345)	(51,818)	—	—	(17,265)
Net assets acquired	<u>3,000</u>	<u>61,200</u>	<u>178,089</u>	<u>152,772</u>	<u>10,000</u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:					
Cash consideration paid	3,000	61,200	178,089	152,772	10,000
Less: Prepayment for acquisition paid in prior year	—	(61,200)	—	—	—
Less: Cash and cash equivalents acquired	(5)	(10,847)	(7)	(206)	(5)
Net cash outflow/(inflow) in the year of 2017	<u>2,995</u>	<u>(10,847)</u>	<u>178,082</u>	<u>152,566</u>	<u>9,995</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 DISPOSAL OF A SUBSIDIARY**

During the year ended 31 December 2017, the Group disposed of 50% of its equity interest in Shenzhen Redco Hongye Property Development Co., Ltd., (“Shenzhen Redco Hongye”) to an independent third party at nil consideration, resulting in a gain on disposal of approximately RMB1,566,000 as Shenzhen Redco Hongye was at net deficit position. The net cash outflow arising from the disposal is RMB672,000. Subsequent to the disposal, Shenzhen Redco Hongye is accounted for as a joint venture of the Group.

30 COMMITMENTS*(a) Capital commitments*

	2017 RMB' 000	2016 RMB' 000
Contracted but not provided for:		
– Property development expenditures	2,244,062	1,192,719
– Acquisition of subsidiaries	146,446	—
– Capital injection to a joint venture	5,357	—

(b) Operating lease commitments

At 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of office as follows:

	2017 RMB' 000	2016 RMB' 000
No later than one year	904	570
Later than one year and no later than 5 years	272	—
	<u>1,176</u>	<u>570</u>

31 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES*(a) Guarantees on mortgage facilities*

The Group had the following contingent liabilities in respect of financial guarantees on mortgage facilities at the end of each of the following reporting periods:

	2017 RMB' 000	2016 RMB' 000
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties	<u>6,052,438</u>	<u>5,100,315</u>

The Group has arranged bank financing for certain purchasers of the Group's properties and provided guarantees to secure obligations of such purchaser for repayments. Such guarantees will terminate upon the earlier of (i) the transfer of the real estate ownership certificate to the purchaser which will generally occur within an average period of six months to three years from the completion of the guarantee registration; or (ii) the satisfaction of mortgage loans by the purchasers of the properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****31 FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)****(a) Guarantees on mortgage facilities (Continued)**

Pursuant to the terms of the guarantees, upon default of mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with accrued interest and penalties owed by the defaulting purchasers to the banks and the Group is entitled to retain the legal title and take over the possession of the related properties. The Group's guarantee period starts from the date of grant of mortgage. The directors consider that the likelihood of default of payments by the purchasers is minimal and their obligations are well covered by the value of the properties and therefore the fair value of financial guarantees is immaterial.

- (b) There are certain corporate guarantees provided by the Group's subsidiaries for each other in respect of borrowings (Note 24) as at 31 December 2017 and 2016. The directors consider that the subsidiaries are sufficiently financially resourced to settle their obligations.
- (c) The Company provides a corporate guarantee of AUD 70,000,000 to the subsidiary of Power Out International Ltd., a joint venture of the Group, for a loan facility which was fully utilised by the joint venture. The directors of the Company are of the opinion that it is not probable that the above guarantee will be called upon and the fair value of this financial guarantees is immaterial.

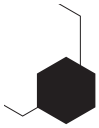
Save as disclosed above, the Group and the Company had no other significant contingent liabilities as at 31 December 2017 (2016: Nil).

32 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 December 2017, the Group had aggregate banking facilities of approximately RMB7,944,228,000 (2016: RMB3,881,306,000) for overdrafts and bank loans. There were unused facilities of approximately RMB1,472,200,000 as at the same date (2016: RMB876,250,000).

As at 31 December 2017 and 2016, the borrowings of the Group were secured by (i) corporate guarantees of the Company; and (ii) certain land and properties under development for sale of the Group's subsidiaries.

The Senior Notes due 2018 are secured by shares of certain subsidiaries of the Company which are incorporated outside the PRC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****33 EARNINGS PER SHARE**

The basic earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to owners of the Company.

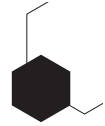
	2017	2016 (Restated) (Note 2.1.2)
Profit attributable to owners of the Company (RMB' 000)	<u>862,237</u>	<u>450,756</u>
Weighted average number of shares in issue	<u>3,551,609,322</u>	<u>3,551,609,322</u>
Basic earnings per share (RMB cents)	<u>24.28</u>	<u>12.69</u>

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for the years ended 31 December 2017 and 2016.

The calculation of basic earnings per share for the year ended 31 December 2016 has been restated to reflect the changes in accounting policy (Note 2.1.2).

34 AMOUNTS DUE FROM/(TO) NON-CONTROLLING INTERESTS

Except for amounts due from non-controlling interest of RMB267,517,939 and RMB15,000,000 which bears interest of 10% and 11% per annum respectively and are secured by their interests in the Group's subsidiaries, the amounts due from/(to) non-controlling interests are interest-free, unsecured, repayable on demand. The carrying values approximate their fair values and are denominated in RMB.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS

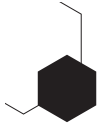
The Group is controlled by Wong Yeuk Hung and Huang Ruoqing, who own 39.06% and 26.04% of the Company's shares respectively.

Major related parties that had transactions with the Group were as follows:

Related parties	Relationship with the Company
Top Glory International Holdings Ltd. and its subsidiaries	An associate
Jiangxi Chang Da Rui Feng Technology Development Co., Ltd. 江西昌大瑞豐科技發展有限公司	An associate
Jiangxi Life Sunshine City Investment Co., Ltd. 江西生命陽光城投資股份有限供公司	An associate
Ganzhou Baoherun Co., Ltd. 贛州葆和潤實業有限公司	An associate
Xianyang Barrong Co., Ltd. 咸陽保榮實業有限公司	An associate
Redco Industry (Jiangxi) Co., Ltd. 力高實業(江西)有限公司	A joint venture
Nanchang Guogao Property Development Co., Ltd. 南昌國高房地產置業有限公司	A joint venture
Jiangxi Po Hu Feng Qing Property Development Co., Ltd. 江西鄱湖風情置業有限公司	A joint venture
Hui Gao Investments Development Ltd. and its subsidiary 匯高投資發展有限公司	A joint venture
Power Out International Holding Ltd. and its subsidiaries 力澳國際控股有限公司	A joint venture
Shenzhen Redco Hongye Property Development Co., Ltd. 深圳力高宏業地產開發有限公司	A joint venture
Wong Yeuk Hung (Mr. Wong) 黃若虹	A major shareholder and director of the Group (Note a)
Huang Ruoqing (Mr. Huang) 黃若青	A major shareholder and director of the Group

Note:

- (a) Mr. Wong was appointed as an executive director and chairman of the Board with effect from 9 March 2017.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Balances with related parties

(i) Amounts due from joint ventures

	2017 RMB' 000	2016 RMB' 000	Nature	Interest	Currency
Jiangxi Manwei Property Development Co., Ltd.	—	56,483	Non-trade	10%	RMB
Hui Gao Investments Development Ltd. and its subsidiary	—	44,227	Non-trade	N/A	HKD
Redco Industry (Jiangxi) Co., Ltd.	27,911	—	Non-trade	N/A	RMB
Jiangxi Po Hu Feng Qing Property Development Co., Ltd.	25,212	13,200	Non-trade	N/A	RMB
Power Out International Holding Ltd. and its subsidiaries	—	74	Non-trade	N/A	HKD
	<u>53,123</u>	<u>113,984</u>			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.

(ii) Amounts due to joint ventures

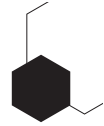
	2017 RMB' 000	2016 RMB' 000	Nature	Interest	Currency
Shenzhen Redco Hongye Property Development Co., Ltd.	12,737	—	Non-trade	N/A	RMB
Hui Gao Investments Development Ltd. and its subsidiary	8,701	—	Non-trade	N/A	HKD
Power Out International Holding Ltd. and its subsidiaries	2,108	—	Non-trade	N/A	HKD
Nanchang Guogao Property Development Co. Ltd.	116,663	65,663	Non-trade	N/A	RMB
	<u>140,209</u>	<u>65,663</u>			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.

(iii) Amounts due from associates

	2017 RMB' 000	2016 RMB' 000	Nature	Interest	Currency
Top Glory International Holdings Ltd. and its subsidiaries	6,719	3,479	Non-trade	N/A	RMB
Jiangxi Life Sunshine City Investment Co., Ltd.	16,000	—	Non-trade	N/A	RMB
Jiangxi Chang Da Rui Feng Technology Development Co., Ltd.	10,000	—	Non-trade	N/A	RMB
	<u>32,719</u>	<u>3,479</u>			

The carrying amounts approximate their fair values and are unsecured and repayable on demand.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) *Transactions with related parties*

Save as disclosed in Note 31(c), the Group has the following related party transactions.

- (i) During the year ended 31 December 2017, the Group purchased property management service amounting to RMB31,695,000 (2016: RMB3,392,000) from Top Glory International Holdings Ltd. and its subsidiaries, at prices mutually agreed by contracted parties.
- (ii) During the year ended 31 December 2017, the Group provided project management consultancy service amounting to RMB28,125,000 (2016: Nil) and RMB 136,000 (2016: Nil) to its joint ventures and an associate respectively.

(c) *Key management compensation*

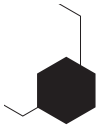
Key management includes executive directors and top management. The compensation paid or payable to key management for employee services is shown below:

	2017 RMB' 000	2016 RMB' 000
Salaries, bonus and other benefits	7,642	6,217
Pension costs - defined contribution plan	225	241
	<u>7,867</u>	<u>6,458</u>

36 DIVIDENDS

	2017 RMB' 000	2016 RMB' 000
Interim dividend of RMB 2 cents (2016: Nil) per ordinary share	71,032	—
Proposed final dividend of RMB 3 cents (2016: Nil) per ordinary share	106,548	—
	<u>177,580</u>	<u>—</u>

A final dividend for the year ended 31 December 2017 of RMB 3 cents (2016: Nil) per ordinary share, totally approximately RMB106,548,000 (2016: Nil) has been recommended by the Board for approval at the forthcoming annual general meeting of the Company. The proposed final dividend has not been dealt with as dividend payable as at 31 December 2017.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	2017 RMB' 000	2016 RMB' 000
ASSETS			
Non-current asset			
Investment in a subsidiary		389,362	389,362
Current assets			
Prepayments		733	420
Amounts due from subsidiaries		5,123,090	2,830,850
Cash and cash equivalents		348,323	114,757
		5,472,146	2,946,027
Total assets		5,861,508	3,335,389
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		139,632	139,632
Reserves	(a)	1,815,652	1,403,162
Total equity		1,955,284	1,542,794
Liabilities			
Non-current liability			
Borrowings		2,117,595	1,738,912
Current liabilities			
Accrued expense		24,913	52,253
Amount due to a subsidiary		1,435	1,430
Borrowings		1,762,281	—
		1,788,629	53,683
Total liabilities		3,906,224	1,792,595
Total equity and liabilities		5,861,508	3,335,389

The balance sheet of the Company was approved for issue by the Board of Directors on 28 March 2018 and were signed on its behalf:

WONG Yeuk Hung
Director

HUANG Ruoqing
Director



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a): Reserve movement of the Company

	Share premium RMB' 000	Contribution surplus RMB' 000	Exchange reserve RMB' 000	Accumulated losses RMB' 000	Total RMB' 000
At 1 January 2016	1,241,423	390,766	56,902	(159,437)	1,529,654
Comprehensive income					
– Loss for the year	–	–	–	(181,524)	(181,524)
Other comprehensive income					
– Currency translation differences	–	–	55,032	–	55,032
Total comprehensive income/(loss)	–	–	55,032	(181,524)	(126,492)
At 31 December 2016	1,241,423	390,766	111,934	(340,961)	1,403,162
Comprehensive income					
– Profit for the year	–	–	–	522,504	522,504
Other comprehensive loss					
– Currency translation differences	–	–	(38,982)	–	(38,982)
Total comprehensive income/(loss)	–	–	(38,982)	522,504	483,522
Transactions with owners					
– Dividend relating to 2017 interim	–	–	–	(71,032)	(71,032)
At 31 December 2017	1,241,423	390,766	72,952	110,511	1,815,652



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

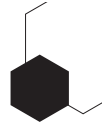
38 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTOR) REGULATION (CAP. 622G) AND HK LISTING RULES

(a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive is set out below:

For the year ended 31 December 2017:

Name	Employer's contribution to a retirement benefit scheme				Total RMB' 000
	Fees RMB' 000	Salary (Note a) RMB' 000	Discretionary bonuses RMB' 000	RMB' 000	
Executive Directors					
Mr. WONG Yeuk Hung	—	1,790	—	14	1,804
Mr. HUANG Ruoqing	—	2,000	—	16	2,016
Mr. TANG Chengyong	—	1,028	300	58	1,386
Mr. HONG Duxuan (Note a)	—	256	—	16	272
Independent non-executive directors					
Dr. WONG Yau Kar, David BBS, JP	216	—	—	—	216
Mr. CHAU On Ta Yuan	216	—	—	—	216
Mr. YIP Tai Him	216	—	—	—	216
Mr. CHOW Kwong Fai, Edward JP	260	—	—	—	260
	<u>908</u>	<u>5,074</u>	<u>300</u>	<u>104</u>	<u>6,386</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTOR) REGULATION (CAP. 622G) AND HK LISTING RULES (CONTINUED))

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2016:

Name	Fees RMB' 000	Salary (Note a) RMB' 000	Discretionary bonuses RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Total RMB' 000
Executive Directors					
Mr. HUANG Ruoqing	—	1,811	—	16	1,827
Mr. TANG Chengyong	—	1,031	408	60	1,499
Mr. HONG Duxuan (Note a)	—	1,033	179	65	1,277
Independent non-executive directors					
Dr. WONG Yau Kar, David BBS, JP	217	—	—	—	217
Mr. CHAU On Ta Yuan	217	—	—	—	217
Mr. YIP Tai Him	217	—	—	—	217
Mr. CHOW Kwong Fai, Edward JP	260	—	—	—	260
	<u>911</u>	<u>3,875</u>	<u>587</u>	<u>141</u>	<u>5,514</u>

Note a:

Mr. HONG Duxuan resigned as an executive director with effect from 9 March 2017.

Note b:

Salary received by the executive directors included all emoluments paid or receivable in respect of directors' services in connection with the management of the Company and its subsidiary undertakings.

Note c:

Save as disclosed above, the directors did not receive or will not receive any other retirement benefits or termination benefits during the year (2016: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

39 SUBSEQUENT EVENTS

On 23 February 2018, the Company issued 6.375% senior notes due 2019 with an aggregate nominal value of US\$300,000,000 at par value (the "6.375% senior notes due 2019"). The interest is payable semi-annually in arrears. The net proceeds, after deducting the direct issuance costs, amounted to approximately US\$297,500,000. The 6.375% Senior Notes due 2019 will mature on 27 February 2019, unless redeemed earlier.

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